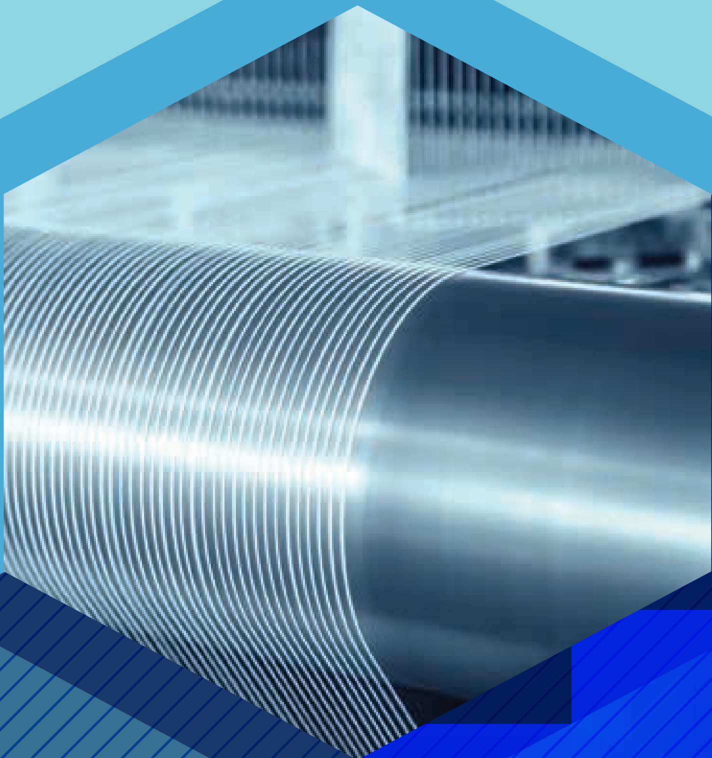
ANNUAL REPORT **2017**



CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.

THREADING CHINA SERVING THE WORLD

Contents

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

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.

Easy access to suppliers of raw materials

Proximity to fabric, textile and garment manufacturers in these areas enables us to tap into the region's fabric, textile and garment markets

Located in Fujian and Zhejiang provinces, two of PRC's major textile and garment production provinces

Our Products

PRODUCT	PROPERTIES	OTHER FEATURES
Polyethylene Terephthalate ("PET")	Excellent wear resistance; low coefficient of fraction; high flexural modulus; superior dimensional stability	• Material for designing mechanical and electro-mechanical parts
Pre-Oriented Yarn ("POY")	Primary form of polyster yarn	• Mainly used in texturizing to make textured yarn ("DTY") • Also be used in draw warping for wearing 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	• 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)	• 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	• 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 subsidiaries, the "Group"), I am pleased to present the Annual Report for the financial year ended 31 December 2017 ("FY2017").

In FY2017, the uncertain economic situation around the world, especially in the Asia remains challenging to the Group. 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, FY2017 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 1.34 billion or 114% to RMB 2.51 billion in revenue for FY2017 from RMB 1.17 billion for the financial year ended 31 December 2016 ("FY2016"). The Group has also reduced its net loss after tax by RMB 260.0 million or 69.3% to RMB 115.0 million in FY2017 from RMB 375.0 million in FY2016.

In addition, the Group recorded a net cash flow generated from operating activities of approximately RMB 175.3 million in FY2017, as compared to a net cash flow generated from operating activities of approximately RMB 127.3 million in FY2016.

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

During the financial year, Huaxiang China managed to achieve full production capacity of all 8 FDY production lines and 8 POY production lines. In addition, the 4 FDY with luster production lines which commenced production in December 2016 has also attained full production capability for FY2017.

As at 31 December 2017, 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 2018 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.

The Company will continue to evaluate any business opportunities which may create better shareholder value, as and when they arise, and/or explore funding raising activities to strengthen the financial position of the Group.

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-Executive and Non-Independent Chairman

Operations & Financial Review

The Group recorded an increase in revenue of RMB 1.3 billion or 114% to RMB 2.5 billion for the financial year ended 31 December 2017 ("FY2017") from RMB 1.2 billion for the financial year ended 31 December 2016 ("FY2016"). 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 and the supply chain cooperation agreement with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials").

In FY2017, 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 RMB 158.1 million, FDY of RMB 956.4 million, BY of RMB 2.2 million, POY of RMB 529.6 million, PET Chips of RMB 698.2 million and revenue generated from supply chain cooperation of RMB 169.7 million.

Cost of sales, correspondingly increased by RMB 1.27 billion to RMB 2.43 billion in FY2017 from RMB 1.16 billion in FY2016. The Group recorded an increase of RMB 67.9 million or 610% in gross profit to RMB 79.0 million for FY2017 from RMB 11.1 million for FY2016. 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 decreased by RMB 0.4 million to RMB 2.9 million for FY2017 from RMB 3.3 million in FY2016. The decrease was mainly attributable to lower salary expenses recorded for the sales department.

General and administrative expenses in FY2017 decreased by RMB 164.8 million or 65% from RMB 255.3 million in FY2016 to RMB 90.5 million in FY2017. This decrease was mainly attributed to no further impairment loss recorded on its PPE during the current financial year, as compared to RMB 112.0 million of impairment loss on PPE being recorded in FY2016.

Financial expenses decreased by RMB 20.1 million or 14% to RMB 120.8 million in FY2017 from RMB 140.9 million in FY2016, which was attributable to the lower applicable bank loan interest rate in FY2017.

In FY2017, 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.

As a result, the Group continued to record a loss in FY2017 of RMB 115.0 million. This net loss attributable to shareholders decreased by RMB 260.1 million or 69% from RMB 375.1 million for FY2016 following the resumption of full production capacity of Huaxiang Plant.

FINANCIAL POSITION

As at 31 December 2017, the Group's Property, Plant and Equipment ("PPE") decreased by RMB 0.16 billion to RMB 1.19 billion from RMB 1.35 billion as at 31 December 2016. The decrease was mainly due to the depreciation charge 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 RMB 3.6 million to RMB 144.9 million as at 31 December 2017 from RMB 148.5 million as at 31 December 2016 due to amortisation charges.

The Group has incurred a total of RMB 159.0 million on the construction of the investment property, namely the office building, as at 31 December 2017 as compared to RMB 156.8 million as at 31 December 2016, due to the additional payments to the construction suppliers. Pending some finishing works, the construction of office building has been completed and the Group expects to obtain the building certificates from relevant government authorities by the first quarter of the financial year ending 2018.

Prepayments under Non-Current Assets consisted of prepayments made for the land preparation fee of RMB 67.6 million for Huaxiang Project (Phase 1) and the land cost of RMB 56.0 million for Huaxiang Project (Phase 2). The decrease from RMB 125.3 million as at 31 December 2016 to RMB 123.6 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 RMB 0.65 million to RMB 18.27 million as at 31 December 2017 from RMB 18.92 million as at 31 December 2016. The decrease was mainly due to the cooperation agreement with Zhejiang 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 RMB 7.4 million from RMB 12.0 million as at 31 December 2016 to RMB 4.6 million as at 31 December 2017, was mainly due to utilisation of the prepaid rental during the financial year under review.

As at 31 December 2017, trade and other receivables decreased by RMB 57.8 million to RMB 225.8 million from RMB 283.6 million as at 31 December 2016. Trade and other receivables mainly comprised:

1. Trade receivables from customers for RMB 67.1 million;
2. RMB 105.4 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. RMB 20.0 million of deposits paid to Zhejiang Materials; and
4. Other receivables from third parties amounting to RMB 33.3 million.

The Group's trade and other payables decreased by RMB 210.9 million to RMB 471.0 million as at 31 December 2017 from RMB 681.9 million as at 31 December 2016 due to the payments made to the trade and other payables.

Overall, financial liabilities decreased to RMB 1.66 billion from RMB 1.69 billion due to certain repayments of the loans from financial and non-financial institutions.

Other liabilities increased to RMB 202.9 million as at 31 December 2017 from RMB 157.9 million as at 31 December 2016 was mainly due to the increase in accrued staff salaries and directors remuneration, accrued social contributions and accrued interest expenses.

As at 31 December 2017, the Group reported a deficiency in net working capital amounting to RMB 1.5 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 RMB 175.3 million in FY2017, as compared to a net cash flow used in operating activities of approximately RMB 127.3 million in FY2016.

As at 31 December 2017, the Group's cash and cash equivalents increased by RMB 13.5 million from RMB 2.4 million as at 31 December 2016 to RMB 15.9 million as at 31 December 2017. The increase was mainly due to cash inflows from operating activities amounting to RMB 175.3 million, which was offset by cash outflow from payments of capital expenditures amounting to RMB 36.9 million and cash outflows from financing activities amounting to RMB 124.9 million.

Board of Directors

MR XIE RULIANG

Non-Executive and Non-Independent Chairman

Mr Xie was appointed to the Board as Non-Executive and Non-Independent Chairman on 4 December 2015. He was last re-elected on 29 June 2017.

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

Executive Director and 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. He was last re-elected on 30 May 2016.

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 29 June 2017.

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. Previously, Mr Tham served as an Independent Director of TMC Education Corporation Ltd. Mr Tham graduated with a Social Science (with Honours) degree in Economics from the National University of Singapore in 1983.

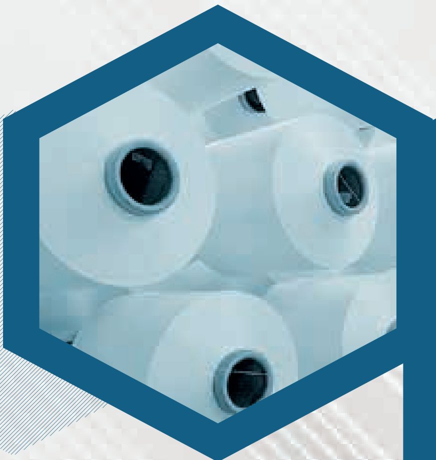
MR SZE MAN KAM

Independent Director

Mr Sze was appointed to the board as an Independent Director on 9 November 2015. He was last re-elected on 30 May 2016.

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.



Board of Directors

MR LOW CHIN PARN ERIC

Independent Director

Mr Low was appointed to the Board as an Independent Director on 29 February 2016. He was last re-elected on 30 May 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.

MR TEO BOON HAI

Independent Director

Mr Teo was appointed to the Board as Independent Director on 4 April 2016. He was last re-elected on 30 May 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 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 since 2010 and was responsible for project management and overall day-today 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
(Exutive 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

Cheok Hui Yee
Kong Wei Fung

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AUDITOR

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Chartered Accountants
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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
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Bank of China
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Republic of China 313000

Industrial and Commercial Bank of China Limited
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48 Hongqi Road, Huzhou City,
Zhejiang Province People's
Republic of China, 313000

Shanghai Pudong Development Bank
(Huzhou Branch)
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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
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FINANCIAL CONTENTS

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.

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. After reviewing Mr Lin Shawn Xiang's performance and contributions to the Group, and considering the current needs of the Group, the Board confirmed that the Company will no longer be searching for a replacement for the position of the CFO.

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 2017 ("FY2017").

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;

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-Executive and Non-Independent 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

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 of the Company, 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.

The number of meetings held by the Board and Board Committees and attendance thereat in respect of the FY2017 are as follows:

DIRECTORS	BOARD	AC	RC	NC
No. of meetings held [1]	6	6	1	1
	ATTENDANCE			
Xie Ruliang	6/6			
Lin Xingdi	6/6			
Tham Wan Loong Jerome	6/6	6/6		1/1
Sze Man Kam	3/6	3/6	0/1	
Low Chin Parn Eric	4/6		1/1	1/1
Teo Boon Hai	6/6	6/6	1/1	1/1

Note:

[1] The attendance records were based on Board and Board Committees meetings held on 1 January 2017 to 31 December 2017.

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.

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 Reconstituted Board has served for a period of three (3) years from the Completion Date and the subsequent appointment and continuation of service by any such Director to and on the Reconstituted Board shall not require the prior approval of the Investor.

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 to 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-Executive and Non-Independent 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, 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.

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, 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)	- NC Chairman
Teo Boon Hai (Independent Director)	- NC Member
Tham Wan Loong, Jerome (Executive Director)	- NC Member

The primary functions of the NC are as follows:

- to identify candidates and review all nominations for the appointment and re-appointment 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;
- 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.

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 rigorously 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. The NC takes into account, amongst others (i) contributions by the Directors during meetings of the Board and Board Committees; (ii) the results of the Board evaluation of its performance; and (iii) the directorships and/or principal commitments of the individual Directors.

Having considered the confirmations received from the Directors, 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.

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 Company does not have any Alternate Directors currently. If an Alternate Director is appointed, such Alternate Director should be familiar with the Group's affairs, and be appropriately qualified.

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 Lin Xingdi and Mr Sze Man Kam 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 Lin Xingdi and Mr Sze Man Kam 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.

There was no additional director appointed during the year. The NC reviews the need for appointment of additional director(s) from time to time. In its search and nomination process for new directors, the NC, in consultation with the Board, would identify the current needs of the Board in terms of skills, experience, and knowledge to complement and strengthen the Board. To identify the right candidates, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates. After short listing the candidates, the NC would meet and interview the shortlisted candidates to assess their suitability and recommend the selected candidate to the Board for consideration and approval.

Currently, there is no formal succession plan for Directors, in particular, the Chairman and for the CEO. Going forward and at the relevant time, the NC will look into such plan in close consultation with the Chairman.

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 and the contribution by each individual Director to the effectiveness of the Board.

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

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

The individual Director's performance criteria include preparedness, participation and commitment, and responsibility.

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 FY2017, which indicated areas of strengths and those that could be improved further; and the NC is of the view that contribution by each individual Director is satisfactory. 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, 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.

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)	- RC Chairman
Sze Man Kam (Independent Director)	- RC Member
Low Chin Parn Eric (Independent Director)	- RC Member

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
- 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.

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 FY2017, 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 FY2017 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 2018 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 a director) for the FY2017 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

(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 29 June 2017.

(4) Mr Xie Ruliang had been appointed as the Non-Executive and Non-Independent 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 a director) for FY2017:-

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.

(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 a Director) during FY2017, 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 two key management personnel.

There are no employees of the Group who are immediate family members of a Director or the CEO whose remuneration exceeded S$50,000 during FY2017.

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.

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 Baker Tilly Consultancy (Singapore) Pte Ltd ("Baker Tilly") in place of BDO LLP which reports to the Chairman of the AC on audit matters in FY2017. Baker Tilly 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 Baker Tilly is adequately resourced and has the appropriate standing and expertise to undertake its activities independently and objectively.

Baker Tilly 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 Baker Tilly.

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

The RMC will hold meetings, as and when necessary, and the members of the AC are invited to attend the RMC meetings should they wish to attend.

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 FY2017, the AC is satisfied that Baker Tilly 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 Internal Audit Report 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 FY2017 audits be followed up and implemented by Management at the next audit reviews or within the timeline stipulated in the respective audit reports for FY2018.

For FY2017, 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 pages 33 to 35 of the Annual Report.

The Group's financial risk management is disclosed under Note 28 of the Notes to the Financial Statements on pages 84 to 89 of this Annual Report.

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)	- AC Chairman
Teo Boon Hai (Independent Director)	- AC Member
Tham Wan Loong, Jerome (Execuitve Director) [1]	- AC Member

Note:

[1] *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;
- 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
- the 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 FY2017, 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;
- 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;
- 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$200,000 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
- 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 70 and 71 of this Annual Report.

In the review of the financial statements for FY2017, the AC has discussed with Management and the external auditors on significant issues as well as the reasonableness of the key assumptions including significant judgements and key estimates used that impact the financial statements. The most significant matters have also been included in the Independent Auditor's Report to the Members under "Key Audit Matters". Taking into account all instances and the views of the external auditors, the AC is assured and concurred with Management's conclusions and satisfied that those matters have been properly dealt with; and concluded that the Group's accounting treatment and the disclosures in the financial statements were appropriate. The AC has recommended the Board to approve the financial statements for FY2017.

The AC, with the concurrence of the Board, had recommended the re-appointment of Messrs Foo Kon Tan LLP as External Auditors for at the forthcoming AGM, based on their performance and quality of their audit. Mr Kong Chih Hsiang Raymond ("Mr Raymond Kong") has been appointed as the audit engagement partner of the Company for 5 consecutive financial years and new audit engagement partner will be appointed in place of Mr Raymond Kong for financial year ending 31 December 2018.

The External Auditors and 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 FY2017.

(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 FY2017's AGM.

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 FY2017, 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 FY2017, 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.

Mr Cao Xiangbin had agreed to waive all Consultancy Fees and Guarantee Fees payable to him for the entire FY2017 until such time when the Group is profitable and that he would not reclaim such fees in the future when the Group is profitable. As such, there were no Interested Party Transactions ("IPTs") for the FY2017. The Company does not have a general mandate from shareholders for IPTs.

(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.

SUSTAINABILITY REPORTING

China Gaoxian intends to publish its Sustainability Report (the "Report"), which is aligned to Rules 711A and 711B of the SGX-ST Listing Manual, by December 2018. The Report will be publicly accessible through China Gaoxian's website as well as on SGX-NET.

DIRECTORS' STATEMENT

for the financial year ended 31 December 2017

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 2017.

In our opinion,

(a) the accompanying financial statements 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 2017 and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") 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-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)

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 statement.

Directors' interest in shares, debentures, warrants or options

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

	Direct interest		**Deemed interest**	
	As at 1.1.2017	**As at 31.12.2017**	As at 1.1.2017	**As at 31.12.2017**
Name of director				
		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 2018.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company or of its subsidiaries.

No shares were issued during the financial year to which this report related by virtue of the exercise of options to take up unissued shares of the Company or of its subsidiaries.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

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 Act and the Listing Manual of the Singapore Exchange Securities and Trading Limited ("SGX-ST Listing Manual"). The functions performed are detailed in the Corporate Governance Report set out in the Annual Report of the Company for the financial year ended 31 December 2017.

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 Corporate Governance Report.

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

Baker Tilly Consultancy (Singapore) Pte. Ltd., the internal auditors of the Group, has been commissioned to assist Management in the Group's Enterprise Risk Management ("ERM") since 2017 to complement the Group's internal audit plan. The AC has reviewed the overall scope of the internal and external audits and the assistance given by Management to the internal and external auditors. The AC has also met with the Company's internal and external auditors for the financial year ended 31 December 2017 to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls without the presence of Management. Management has noted the internal control weaknesses highlighted by the internal and external auditors and will work closely with them on the implementation of the recommendations at their next audit reviews or within the timeline stipulated in their respective audit reports for the financial year ending 31 December 2018.

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 2017 are set out under the Corporate Governance Report in the Annual Report 2017.

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 2017.

for the financial year ended 31 December 2017

Independent auditor

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

On behalf of the Directors

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THAM WAN LOONG, JEROME

DIRECTOR

....

SZE MAN KAM

DIRECTOR

Dated: 6 April 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of China Gaoxian Fibre Fabric Holdings Ltd.

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 statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, 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 2017, 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 115.0 million (2016 - RMB 375.1 million) for the financial year ended 31 December 2017. As of that date, the Group and the Company reported deficiencies in net current assets of RMB 1.5 billion and RMB 94.1 million (2016 - deficiency in net current assets of RMB 2.1 billion and RMB 91.0 million). The Company also reported a deficiency in net assets of RMB 94.1 million (2016 - RMB 91.0 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.

Impairment of property, plant and equipment

Risk:
As at 31 December 2017, the Group's property, plant and equipment amounted to RMB 1.19 billion and it represents the largest category of assets on the Group's statement of financial position. The Group has been incurring losses since its resumption of trading on 18 September 2013. Pursuant to the implementation of Framework Supply Chain Cooperation Agreement with Zhejiang Materials Industry Chemical Group Co., Ltd., since December 2016, Huaxiang China's daily production volume for its spinning and polymerization plant has stabilised to a designated capacity level. 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 are currently leased to third parties.

Management has recorded cumulative impairment losses on the Group's property, plant and equipment amounting to approximately RMB 803.7 million as at 31 December 2017. FRS 36 – *Impairment of Assets* 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.

Key Audit Matters (Cont'd)

Impairment of property, plant and equipment (Cont'd)

During the current financial year, management had engaged an independent firm of professional valuers (the "Valuer") to determine the recoverable amounts of the Group's property, plant and equipment to determine the recoverable amounts of the Group's three cash generating units to 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. Following their assessment, no additional impairment loss or no reversal of prior years' impairment loss on the Group's property, plant and equipment is required.

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.

Our response:
We evaluated the competence, capability and objectivity of the Valuer. We have read the Group's terms of engagement with the Valuer to determine whether there are any matters that might have affected their objectivity or limited the scope of their work. With the assistance of our auditor's expert, we evaluated the appropriateness and reasonableness of the valuation methodologies and key assumptions used by the Valuer, which involve significant judgement and estimation uncertainty. We have evaluated whether the auditor's expert has the necessary competence, capabilities and objectivity for our purposes.

We also considered the adequacy of the disclosure 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.

Impairment assessment on financial assets

Risk:
As at 31 December 2017, the Group's loans and receivables as disclosed in Note 11 in the consolidated financial statements amounted to approximately RMB 113.0 million. They comprised mainly of (i) trade receivables of RMB 67.1 million and (ii) deposits of RMB 28.6 million.

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. We have identified the recoverability of the Group's loans and other receivables as a key audit matter.

Our response:
We have assessed the Group's process and controls relating to the monitoring of trade receivables and considered ageing to identify collection risks. We have also sent confirmations on a sampling basis and reviewed for collectability by way of obtaining evidence of subsequent receipts from the trade receivables.

We have assessed the adequacy of the Group's disclosures on loans and receivables and the related risks such as credit risk in the financial statements.

Presentation of revenue

Risk:
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.

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.

Key Audit Matters (Cont'd)

Presentation of revenue (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.

Our response:
We inquired with management to understand if there were changes to the Cooperation Agreement during the current financial year and evaluated the risks and responsibilities undertaken by the Group in accordance with FRS 18 – *Revenue*.

We have also assessed and validated the adequacy and appropriateness of the related disclosures made in the notes to the financial statements.

Other Information

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, 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.

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.

Auditor's Responsibilities for the Audit of the 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.

To the Members of China Gaoxian Fibre Fabric Holdings Ltd.

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

- 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.
- 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.

Other matter

On 2 June 2017, the Company announced that SGX-ST has notified the Company that it will be placed on the Watch-list due to the Minimum Trading Price ("MT") Entry Criteria with effect from 5 June 2017. The Company must take active steps to meet the requirements under Rule 1314(2) of the Listing Manual of the SGX-ST (the Listing Manual") for its removal from Watch-list within 36 months from 5 June 2017, failing which, 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.

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 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,
6 April 2018

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

	Note	The Group **31 December 2017 RMB'000**	31 December 2016 RMB'000 (restated)	1 January 2016 RMB'000 (restated)	The Company **31 December 2017 RMB'000**	31 December 2016 RMB'000
ASSETS						
Non-current						
Property, plant and equipment	5	**1,192,518**	1,348,779	1,530,276	**–**	–
Investment property - Construction work-in-progress	6	**159,045**	156,780	154,060	**–**	–
Land use rights prepayments	7	**144,854**	148,500	152,146	**–**	–
Prepayments	8	**123,635**	125,302	126,967	**–**	–
Investment in subsidiaries	9	**–**	–	–	**–**	–
		1,620,052	1,779,361	1,963,449	**–**	–
Current						
Land use rights prepayments	7	**3,646**	3,646	3,646	**–**	–
Prepayments	8	**4,554**	12,000	15,984	**–**	–
Inventories	10	**18,275**	18,929	36,357	**–**	–
Trade and other receivables	11	**225,818**	283,607	305,402	**–**	–
Bank deposits pledged	12	**17,767**	118,930	238,056	**–**	–
Cash and short term deposits	13	**15,964**	2,464	9,928	**18**	38
		286,024	439,576	609,373	**18**	38
TOTAL ASSETS		**1,906,076**	2,218,937	2,572,822	**18**	38
EQUITY AND LIABILITIES						
Capital and Reserves						
Share capital	14	**2,190,580**	2,190,580	2,190,580	**2,190,580**	2,190,580
Merger reserve	15	**(369,563)**	(369,563)	(369,563)	**–**	–
Warrant reserve	15	**13,840**	13,840	13,840	**13,840**	13,840
Accumulated losses	15	**(2,264,696)**	(2,149,671)	(1,774,581)	**(2,298,544)**	(2,295,404)
		(429,839)	(314,814)	60,276	**(94,124)**	(90,984)
LIABILITIES						
Non-current						
Borrowings	16	**523,000**	–	432,000	**–**	–
Obligations under finance leases		**–**	–	10,398	**–**	–
		523,000	–	442,398	**–**	–
Current						
Borrowings	16	**1,139,080**	1,693,928	1,189,670	**–**	–
Obligations under finance leases		**–**	–	44,821	**–**	–
Trade and other payables	17	**470,966**	681,897	735,605	**65,566**	61,582
Other liabilities	18	**202,869**	157,926	99,268	**28,576**	29,440
Provision for income tax		**–**	–	784	**–**	–
		1,812,915	2,533,751	2,070,148	**94,142**	91,022
TOTAL EQUITY AND LIABILITIES		**1,906,076**	2,218,937	2,572,822	**18**	38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Revenue	19	**2,514,197**	1,173,742
Cost of sales		**(2,435,169)**	(1,162,610)
Gross profit		**79,028**	11,132
Other income	20	**19,054**	12,122
Selling and distribution expenses		**(2,897)**	(3,262)
General and administrative expenses		**(90,525)**	(255,359)
Other expenses		**(1,685)**	(1,341)
Finance income	21	**2,773**	2,491
Finance expense	21	**(120,773)**	(140,873)
Loss before tax	22	**(115,025)**	(375,090)
Income tax expense	24	**–**	–
Net loss for the year, representing total comprehensive loss for the year attributable to equity holders of the Company		**(115,025)**	(375,090)
Loss per share attributable to equity holders of the Company (RMB)			
Basic and diluted	25	**(1.01)**	(3.30)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2017

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 2016, as reported previously	2,190,580	13,840	(369,563)	(1,795,622)	39,235
Prior year adjustments (Note 31)	–	–	–	21,041	21,041
Balance at 1 January 2016, as restated	2,190,580	13,840	(369,563)	(1,774,581)	60,276
Loss, net of tax, representing total comprehensive loss for the year	–	–	–	(375,090)	(375,090)
Balance at 31 December 2016, as restated	2,190,580	13,840	(369,563)	(2,149,671)	(314,814)
Loss, net of tax, representing total comprehensive loss for the year	**–**	**–**	**–**	**(115,025)**	**(115,025)**
Balance at 31 December 2017	**2,190,580**	**13,840**	**(369,563)**	**(2,264,696)**	**(429,839)**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended 31 December 2017

	Note	**Year ended 31 December 2017 RMB'000**	Year ended 31 December 2016 RMB'000
Cash Flows from Operating Activities			
Loss before tax		**(115,025)**	(375,090)
Adjustments for:			
Amortisation of land use rights	7	**3,646**	3,646
Amortisation of land preparation cost	8	**1,667**	1,665
Depreciation of property, plant and equipment	5	**159,142**	138,457
Impairment losses on property, plant and equipment	5	**–**	112,010
Impairment loss on trade and other receivables	11	**10,068**	29,228
Interest expense	21	**120,773**	140,873
Interest income	21	**(2,773)**	(2,491)
Reversal of impairment of trade receivables	11	**(29,994)**	–
Loss on disposal of property, plant and equipment	22	**1,699**	–
Operating profit before working capital changes		**149,203**	48,298
Changes in inventories		**654**	17,428
Changes in prepayments		**7,446**	3,984
Changes in trade and other receivables		**77,715**	(7,432)
Changes in trade and other payables		**(62,440)**	62,505
Cash flows generated from operations		**172,578**	124,783
Interest received		**2,773**	2,491
Income taxes paid		**–**	–
Net cash flows generated from operating activities		**175,351**	127,274
Cash Flows from Investing Activities			
Proceeds from disposal of property, plant and equipment		**2,622**	–
Purchase of property, plant and equipment, representing net cash flows used in investing activity (Note A)		**(37,244)**	(40,351)
Additions to investment property - construction work-in-progress	6	**(2,265)**	(2,720)
Net cash flows used in investing activities		**(36,887)**	(43,071)
Cash Flows from Financing Activities			
Proceeds from bank loans and non-financial institutions (Note B)		**1,208,180**	1,240,148
Repayment of bank loans and non-financial institutions (Note B)		**(1,240,028)**	(1,167,890)
Repayment of obligations under finance leases		**–**	(55,219)
Proceeds of interest-free loans from a government-linked entity, a non-related third party and a shareholder		**–**	220,000
Decrease in bills payables (Note B)		**(113,004)**	(356,855)
Interest paid		**(81,275)**	(90,977)
Decrease in bank deposits pledged		**101,163**	119,126
Net cash flows used in financing activities		**(124,964)**	(91,667)
Net increase/(decrease) in cash and cash equivalents		**13,500**	(7,464)
Cash and cash equivalents as at beginning of financial year		**2,464**	9,928
Cash and cash equivalents as at end of financial year	13	**15,964**	2,464

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

for the financial year ended 31 December 2017

Note A. Property, plant and equipment

	Note	**Year ended 31 December 2017 RMB'000**	Year ended 31 December 2016 RMB'000
Additions to property, plant and equipment	5	**7,202**	68,970
Less: Amounts included in accrued capital expenditure in current year	17	**(61,867)**	(91,909)
Add: Amounts included in accrued capital expenditure in prior year		**91,909**	63,290
Net cash outflow for purchase of property, plant and equipment		**37,244**	40,351

Note B. Reconciliation of liabilities arising from financing activities

	As at 31 December 2016 RMB'000	**Cash flows – Proceeds from loans RMB'000**	**Cash flows – Repayment of loans RMB'000**	**As at 31 December 2017 RMB'000**
Borrowings (Note 16):				
Financial institutions	1,224,178	1,197,280	(1,192,478)	**1,228,980**
Non-financial institutions	469,750	10,900	(47,550)	**433,100**
	1,693,928	1,208,180	(1,240,028)	**1,662,080**
Bills payables (Note 17)	130,600	–	(113,004)	**17,596**
Total	1,824,528	1,208,180	(1,353,032)	**1,679,676**

1 General Information

The financial statements of the Company and the Group for the financial year ended 31 December 2017 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 80 Robinson Road #02-00, Singapore 068898 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 115.0 million (2016 - RMB 375.1 million) for the financial year ended 31 December 2017. At that date, the Group and the Company reported deficiencies in net current assets of RMB 1.5 billion and RMB 94.1 million (2016 - deficiency in net current assets of RMB 2.1 billion and RMB 91.0 million). The Company also reported a deficiency in net assets of RMB 94.1 million (2016 - RMB 91.0 million) as at the balance sheet date.

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. Furthermore, on 2 June 2017, the Company announced that SGX-ST has notified the Company that it will be placed on the Watch-list due to the Minimum Trading Price ("MT") Entry Criteria with effect from 5 June 2017. The Company must take active steps to meet the requirements under Rule 1314(2) of the Listing Manual of the SGX-ST (the "Listing Manual") for its removal from Watch-list within 36 months from 5 June 2017, failing which, 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) The Group will be able to generate sufficient operating cash flows from the full production of Huaxiang China plant to fund its working capital needs;

(b) The commencement of the Framework Supply Chain Cooperation Agreement with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials") since 1 December 2016 has allowed 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; and

2 Going concern (Cont'd)

(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 FY2017, the Group was able to obtain fresh funding amounting to RMB 1,208 million from these financial and non-financial institutions to settle the Group's borrowings of RMB 1,240 million owing to these financial and non-financial institutions. The loans due to these lenders amounted to RMB 1,662 million as at 31 December 2017 (2016 - RMB 1,694 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) the ability to generate sufficient operating cash flows by Huaxiang China, (ii) the ability to obtain on-going financing from non-financial institutions, third parties and financial institutions; and; (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

<u>Financial year ended 31 December 2010</u>
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.

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.

for the financial year ended 31 December 2017

3 Basis of preparation (Cont'd)

3.1 Background (Cont'd)

Financial year ended 31 December 2010 (Cont'd)
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 of 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.

Financial year ended 31 December 2013 and thereafter
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 and thereafter.

Financial year ended 31 December 2017
The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in RMB which is the Group's and the Company's functional currency. All the financial information presented in Chinese Renminbi ("RMB") has been rounded to the nearest thousand ("RMB'000") unless otherwise stated.

3.2 Interpretations and amendments to published standards effective in 2017

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 2017:

Reference	Description	Effective date (Annual Periods beginning on)
Amendments to FRS 7	*Statement of Cash Flows*	1 January 2017

3 Basis of preparation (Cont'd)

3.2 Interpretations and amendments to published standards effective in 2017 (Cont'd)

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.

3.3 SFRS(I) not yet effective

<u>Convergence with International Financial Reporting Standards (IFRS)</u>

On 29 December 2017, Accounting Standards Council Singapore had issued Singapore Financial Reporting Standards (International) (SFRS(I)s), Singapore's equivalent of the International Financial Reporting Standards (IFRSs). Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore are required to apply SFRS(I)s for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary assessment of the impact of IFRS1 and then to SFRS(I) for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group does not expect to change its existing accounting policies on adoption of the new framework.

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. However, the Group has not early applied the following new or amended standards in preparing these statements. For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Group and the Company in future financial periods, the Group assessed the transition options and the potential impact on its financial statements, and to implement these standards.

Reference	**Description**	**Effective date (Annual periods beginning on)**
IFRS 1	*First-time Adoption of International Financial Reporting Standards*	1 January 2018
SFRS(I) 9	*Financial Instruments*	1 January 2018
SFRS(I) 15	*Revenue from Contracts with Customers*	1 January 2018
SFRS(I) 1 – 40	*Amendments Transfers of Investment Property*	1 January 2018
SFRS(I) 16	*Leases*	1 January 2019

<u>IFRS 1 *First-time Adoption of International Financial Reporting Standards*</u>

When the Group adopts IFRS in 2018, the Group will apply IFRS 1 with 1 January 2017 as the date of transition for the Group and the Company. IFRS 1 generally requires that the Group applies IFRS on a retrospective basis, as if such accounting policy had always been applied.

3 Basis of preparation (Cont'd)

3.3 SFRS(I) not yet effective (Cont'd)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Cont'd)
If there are changes to the accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required because IFRS 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies. IFRS 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to the FRS financial statements. The Group does not expect the application of the mandatory exceptions and the optional exemptions in IFRS 1 to have any significant impact on the financial statements.

SFRS(I) 9 *Financial Instruments*
SFRS(I) 9 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

SFRS(I) 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in opening equity as at 1 January 2018.

During 2017, the Group completed its initial assessment of the impact on the Group's financial statements. Overall, the Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under SFRS(I) 9.

Loans and receivables currently accounted for at amortised cost will continue to be accounted for using amortised cost model under SFRS(I) 9. The Group does not have any financial assets held at fair value or classified as "available for sale".

Impairment – The Group plans to apply the simplified approach and records lifetime expected impairment losses on all trade receivables. On adoption of SFRS(I) 9, the Group does not expect a significant increase in the impairment loss allowance.

Transition – The Group plans to apply the transitional provisions that require first-time adopter of SFRS(I) to restate comparative when applying SFRS(I) 9 for the first time for its first set of SG-IFRS financial statements.

SFRS(I) 15 *Revenue from Contracts with Customers*
SFRS(I) 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also establishes principles to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. In addition, it also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

When effective, SFRS(I) 15 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services.*

SFRS(I) 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

3 Basis of preparation (Cont'd)

3.3 SFRS(I) not yet effective (Cont'd)

SFRS(I) 15 *Revenue from Contracts with Customers* (Cont'd)
SFRS(I) 15 *Revenue Contracts with Customers* clarifies 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); and
- 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, SFRS(I) 15, i.e. on 1 January 2018.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is adopting SFRS(I) 15 in its financial statements for the year ending 31 December 2018. During 2017, the Group completed its initial assessment of the impact on the Group's financial statements. Based on its initial assessment, the Group does not expect significant changes to the basis of revenue recognition for its revenue from sale of goods on the adoption of SFRS(I)15. Management does not plan to early adopt the new SFRS (I) 15.

Amendments to SFRS(I) 40 *Transfer of Investment Property*

The amendments in SFRS(I) 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 reassessing the impact to the consolidated financial statements.

SFRS(I) 16 *Leases*

SFRS(I) 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and financial liabilities to pay rentals with a term of more than 12 months, unless the underlying asset is of a low value.

SFRS(I) 16 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, SFRS(I) 16 requires more extensive disclosures to be provided by a lessor. When effective, SFRS(I) 16 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement* contains a Lease, INT FRS 15 *Operating Leases – Incentives* and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if SFRS(I) 15 is also applied.

The Group has performed a preliminary assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group has factory where they are operating leases. The Group expects these operating leases to be recognised as ROU assets with corresponding lease liabilities under the new standard. This would increase the gearing ratio of the Group. It is currently impracticable to disclose any further information on the known or reasonable estimable impact to the entity's financial statement. Management does not plan to early adopt the above new SFRS (I) 16.

3 Basis of preparation (Cont'd)

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.

3.4.2 Subsidiary

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.

<u>Non-Controlling Interest</u>

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 consolidated statement of financial position, separately from equity attributable to owners of the Company.

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.2 Subsidiary (Cont'd)

Changes in ownership interests in subsidiaries without change of control

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 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.

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 profit or loss 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.

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

3.4.3 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.

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.3 Functional currency (Cont'd)

Conversion of foreign currencies (Cont'd)

Transactions and balances (Cont'd)

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.

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

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.

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.4 Property, plant and equipment (Cont'd)

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 values, useful lives and depreciation methods 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.

3 Basis of preparation (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.

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.

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, trade and other payables and other liabilities.

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

<u>Where the Group is the lessee</u>
<u>Finance leases</u>
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".

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.

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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.

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 26 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

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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.

4 Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the management to exercise judgement 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 Note 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 8)
As at 31 December 2017, included in "prepayments" to the financial statements was prepaid land use rights of RMB 56.0 (2016 - 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 湖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 statement 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.

4 Significant accounting estimates and judgements (Cont'd)

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

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 first 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 has engaged a Singapore legal counsel to seek legal advice. Management has assessed that the financial impact, including any outflows to settle this obligation, 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.

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 versus 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 2.34 billion on a "gross basis" and records its share of the profits amounting to RMB 169.7 million generated from the arrangement in the consolidated statement of comprehensive income, respectively.

4 Significant accounting estimates and judgements (Cont'd)

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.

<u>Useful life of property, plant and equipment (Note 5)</u>
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 2017 was approximately RMB 1.19 billion (2016 - RMB 1.35 billion). A reduction/extension in the useful life of the production plant and machinery by one year (2016 - one year) would increase/decrease the Group's loss for the financial year by approximately RMB 25,210,000 /RMB 4,170,000 (2016 - RMB 10,732,000/RMB 8,444,000).

<u>Allowance for inventory obsolescence (Note 10)</u>
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 43,000 (2016 - RMB 300,000).

<u>Impairment loss recognised on property, plant and equipment (Note 5)</u>
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 variables constant, a decrease/increase of useful lives of Zhejiang Huagang and New Huawei's property, plant and equipment by one year would have increased/decreased the impairment loss by RMB 3.0 million or RMB 3.4 million respectively; or

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) (Cont'd)

2) By keeping other variables 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 85,000 or RMB 86,000 respectively; or

3) By keeping other variables constant, a 1% decrease/increase to the weighted average cost of capital of Huaxiang China would have decreased/increased the impairment loss by RMB 44.6 million or RMB 42.3 million respectively; or

4) By keeping other variables constant, a 1% decrease/increase to the selling price of finished goods sold by Huaxiang China would have increased/decreased the impairment loss by RMB 136.3 million or RMB 118.9 million respectively; or

5) By keeping other variables constant, a 1% decrease/increase to the raw materials operating cost of Huaxiang China would have decreased/increased the impairment loss by RMB 93.8 million or RMB 105.1 million respectively.

The carrying amount as at 31 December 2017 is disclosed in Note 5 to the financial statements.

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 is 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 5.5 million (2016 - RMB 6.4 million).

Income taxes (Note 24)
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 2017, 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.

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
Cost							
At 1 January 2016, as reported previously	738,368	1,780,839	4,939	11,979	837	63,921	2,600,883
Prior year adjustment (Note 31)	–	(21,041)	–	–	–	–	(21,041)
At 1 January 2016, as restated	738,368	1,759,798	4,939	11,979	837	63,921	2,579,842
Additions	–	2,393	422	38	–	66,117	68,970
Transfers	5,951	124,087	–	–	–	(130,038)	–
At 31 December 2016, as restated	744,319	1,886,278	5,361	12,017	837	–	2,648,812
Additions	**–**	**17**	**66**	**10**	**–**	**7,109**	**7,202**
Transfers	**5,883**	**–**	**–**	**–**	**–**	**(5,883)**	**–**
Reclassification	**8,350**	**(8,758)**	**408**	**–**	**–**	**–**	**–**
Disposals	**–**	**(96,446)**	**(10)**	**(191)**	**–**	**–**	**(96,647)**
At 31 December 2017	**758,552**	**1,781,091**	**5,825**	**11,836**	**837**	**1,226**	**2,559,367**
Accumulated depreciation and impairment losses							
At 1 January 2016, as reported previously	236,072	805,791	2,569	8,077	421	17,677	1,070,607
Prior year adjustment (Note 31)	–	(21,041)	–	–	–	–	(21,041)
At 1 January 2016, as restated	236,072	784,750	2,569	8,077	421	17,677	1,049,566
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, as restated	263,189	1,023,085	3,522	9,585	652	–	1,300,033
Depreciation charge for the year	**31,503**	**125,425**	**898**	**1,284**	**32**	**–**	**159,142**
Disposals for the year	**–**	**(92,172)**	**–**	**(154)**	**–**	**–**	**(92,326)**
At 31 December 2017	**294,692**	**1,056,338**	**4,420**	**10,715**	**684**	**–**	**1,366,849**
Net carrying amount							
At 31 December 2017	**463,860**	**724,753**	**1,405**	**1,121**	**153**	**1,226**	**1,192,518**
At 31 December 2016, as restated	481,130	863,193	1,839	2,432	185	–	1,348,779
At 1 January 2016, as restated	502,296	975,048	2,370	3,902	416	46,244	1,530,276

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5 **Property, plant and equipment (Cont'd)**

(a) **Assets pledged as security**

As at 31 December 2017, certain of the Group's production and office buildings and plant and machinery are pledged as security for the Group's 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 & 17)**		**Mortgaged to Zhejiang Materials (Note 19)**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Production and office buildings	**438,677**	72,570	**–**	–	**438,677**	72,570
Plant and machinery	**115,843**	424,413	**60,118**	104,964	**175,961**	529,377
	554,520	496,983	**60,118**	104,964	**614,638**	601,947

(b) **Depreciation expense**

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

The Group	**2017 RMB'000**	2016 RMB'000
Depreciation expense charged to:-		
- Cost of sales	**129,847**	108,883
- Administration expenses	**29,295**	29,574
	159,142	138,457

(c) **Fully depreciated assets**

As at 31 December 2017, 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 (2016 - RMB 38.2 million), RMB 100.6 million (2016 - RMB 19.2 million), RMB 2.1 million (2016 - RMB 2.0 million) and RMB 7.0 million (2016 – RMB 4.8 million) respectively.

(d) **Idle assets**

As at 31 December 2017, 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 28.0 million (2016 - RMB 28.1 million).

(e) **Assets leased out under operating leases**

As at 31 December 2017, the carrying amount of plant and machinery leased out to third parties under operating lease arrangements amounted to RMB 6.0 million (2016 - RMB 82.0 million). The Group recorded operating lease income amounting to RMB 1.3 million for the current financial year (2016 - RMB 3.0 million).

5 Property, plant and equipment (Cont'd)

(f) Impairment losses

The Group continues to incur substantial operational loss since its resumption of trading of the Company's shares on 18 September 2013. Pursuant to the implementation of Framework Supply Chain Cooperation Agreement with Zhejiang Materials since December 2016, Huaxiang China's daily production volume for its spinning and polymerization plant has stabilised to a designated capacity level. 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 has recorded cumulative impairment losses on the Group's property, plant and equipment amounting to approximately RMB 803.7 million as at 31 December 2017. 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 2017. No further impairment loss (2016 - RMB 112.0 million) or reversal of prior years' impairment losses were 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.

6 Investment property – Construction work-in-progress

The Group	**2017** **RMB'000**	2016 RMB'000
At 1 January	**156,780**	154,060
Additions	**2,265**	2,720
At 31 December	**159,045**	156,780

(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 2017. Management has not obtained the Construction Project Completion Acceptance Record Certificate （建设工程竣工验收备案证明）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 2017 was 32 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 fair value less costs of disposal to be RMB 176.8 million as at 31 December 2017 (2016 – RMB 176.8 million).

7 Land use rights prepayments

The Group	2017 RMB'000	2016 RMB'000
Cost		
At 31 December	**176,477**	176,477
Accumulated amortisation		
At 1 January	**24,331**	20,685
Amortisation charge for the year	**3,646**	3,646
At 31 December	**27,977**	24,331
Net carrying amount		
At 31 December	**148,500**	152,146
Non-current	**144,854**	148,500
Current	**3,646**	3,646
	148,500	152,146

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)
		176,477	

As at 31 December 2017, 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 32 to 42 years (2016 - 33 to 43 years).

Assets pledged as security

As at 31 December 2017, the Group's land use right with a carrying amount of approximately RMB 148.5 million (2016 – RMB 152.1 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	**2017**	2016
	RMB'000	RMB'000
Non-current		
Prepayment for future land use (Note A)	**55,988**	55,988
Prepayments relating to land preparation costs (Note B)	**67,647**	69,314
	123,635	125,302
Current		
Prepaid rental	**4,554**	12,000

Note A: Prepayment for future land use

Included in prepayment is an amount of RMB 56.0 million (2016 - RMB 56.0 million) prepaid for a plot of state owned land in the PRC, where no formal contract or agreement was 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.

Note B: Prepayments relating to land preparation costs

The Group	**2017** **RMB'000**	2016 RMB'000
Cost		
At 1 January and 31 December	**84,580**	84,580
Accumulated amortisation		
At 1 January	**15,266**	13,601
Amortisation charge for the year	**1,667**	1,665
At 31 December	**16,933**	15,266
Net carrying amount	**67,647**	69,314

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	**2017** **RMB'000**	2016 RMB'000
Unquoted equity investment, at cost	**1,089,421**	1,089,421
Less: Accumulated impairment losses	**(1,089,421)**	(1,089,421)
Unquoted equity investment, net	**–**	–
Amount due from a subsidiary (non-trade)	**930,390**	930,390
Less: Accumulated impairment losses	**(930,390)**	(930,390)
	–	–

The non-trade amount due from a subsidiary amounting to RMB 930.4 million (2016 - 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.

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9 **Investment in subsidiaries (Cont'd)**

As at 31 December 2017, management performed a re-assessment and concluded that impairment indicators continue to exist and accordingly, no reversal of the impairment losses on the investment in subsidiaries was made. 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.

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	
			2017	2016	**2017**	2016
			%	%	**RMB'000**	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		
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		
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**	–*		

^ - Audited by Foo Kon Tan LLP for consolidation purposes

* - In 2017, as part of management's rationalisation process, an internal restructuring exercise was conducted to transfer the investment in New Huawei from Zhejiang Huagang to Huaxiang China, at a consideration of share capital of the New Huawei.

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10 Inventories

The Group	2017 RMB'000	2016 RMB'000
Raw materials (at cost)	**10,361**	8,564
Work-in-progress (at cost)	**7,054**	4,379
Finished goods (at cost)	**860**	5,986
	18,275	18,929

11 Trade and other receivables

The Group	2017 RMB'000	2016 RMB'000
Trade receivables	**67,493**	61,415
Impairment losses	**(356)**	(30,350)
Net trade receivables	**67,137**	31,065
Deposits (Note A)	**28,558**	37,881
Advances to staff	**9,668**	3,438
Other receivables from a third party for non-performing loans (Note B)	**11,647**	11,647
Impairment losses	**(11,647)**	(1,579)
Other receivables from a third party for non-performing loans, net	**–**	10,068
Working capital loans extended to lessees under operating leases (Note C)	**1,700**	8,950
Amount due from a third party (non–trade) (Note D)	**–**	34,700
Rental and other receivables	**5,055**	2,030
Bills receivables	**861**	50
Loans and receivables at amortised cost	**112,979**	128,182
Advances to suppliers	**7,478**	4,316
Input VAT receivables	**105,361**	151,109
Total trade and other receivables	**225,818**	283,607

Note A:

Included in deposits as at 31 December 2017 was an amount of RMB 20.0 million (2016 – RMB 30 million) paid to Zhejiang Materials pursuant to the Framework Supply Chain Cooperation Agreement.

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 2017, the Group still has an outstanding receivable due from China Huarong amounting to RMB 10.1 million (2016 – RMB 10.1 million), net of an impairment loss of RMB 1.6 million recognised in FY 2016. On 9 November 2017, Fuzhou Intermediate People's Court ruled against the Group and decided that the Group do not have the first rights over the remaining undistributed proceeds of RMB 10.1 million amongst the other 13 creditors including the Group. On this basis, management recognised a full impairment on the remaining RMB 10.1 million receivable in the consolidated statement of comprehensive income.

11 Trade and other receivables (Cont'd)

Note C:
As part of the operating lease agreement previously entered with the lessees as mentioned under Note 5(e), the Group has extended interest free working capital loans to assist the lessees to finance their operations. As at 31 December 2017, the outstanding working capital loan was due from the previous lessee of Zhejiang Huagang.

Note D:
The non-trade advances extended to a third party in FY2016 were unsecured, interest-free and repayable on demand. This amount has been fully recovered in current financial year.

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	2017 RMB'000	2016 RMB'000
No credit terms*	**44,142**	88,167
Not past due	**67,137**	19,045
Past due but not impaired:		
- Not more than 6 months	**1,700**	12,544
- More than 6 months and not more than 12 months	**–**	8,398
- More than 12 months	**–**	28
	112,979	128,182

*- 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.

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

The Group	2017 RMB'000	2016 RMB'000
No credit terms	**11,647**	1,579
Past due and impaired:		
- More than 12 months	**356**	30,350
	12,003	31,929

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

The Group	2017 RMB'000	2016 RMB'000
At 1 January	**31,929**	2,701
Impairment loss recognised (Note 22)	**10,068**	29,228
Reversal of allowance for impairment for the year (Note 22)	**(29,994)**	–
At 31 December	**12,003**	31,929

Trade receivables are non-interest bearing and are normally settled on 15 and 180 days (2016 - 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 deposits as disclosed below:

The Group	**2017** **RMB'000**	2016 RMB'000
Bills payables facilities (Note 17)	**17,597**	44,001
Import bill advance facilities	**–**	9,409
Fixed deposits	**170**	65,520
	17,767	118,930

The weighted average effective interest rate on bank deposits pledged, with a maturity of 90 days and 180 days, was 1.1% (2016 - 1.13% per annum) for the financial year ended 31 December 2017.

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**	
	2017 **RMB'000**	2016 RMB'000	**2017** **RMB'000**	2016 RMB'000
Cash on hand	**129**	484	**–**	–
Cash at banks	**33,602**	120,910	**18**	38
Cash and bank balances	**33,731**	121,394	**18**	38
Less: Bank deposits pledged (Note 12)	**(17,767)**	(118,930)	**–**	–
Cash and short term deposits	**15,964**	2,464	**18**	38

Cash and bank balances have an effective interest rate of 0.30% to 0.35% per annum (2016 - 0.30% to 0.42% per annum) for the financial year ended 31 December 2017.

14 Share capital

The Company	**2017** **No. of shares issued '000**	**RMB'000**	2016 No. of shares issued '000	RMB'000
Issued and fully paid ordinary shares				
At 1 January and at 31 December	**113,750**	**2,190,580**	113,750	2,190,580

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	
	2017	2016	2015	**2017**	2016
	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	**RMB'000**	RMB'000
Merger reserve	**(369,563)**	(369,563)	(369,563)	**–**	–
Warrant reserve	**13,840**	13,840	13,840	**13,840**	13,840
Accumulated losses	**(2,264,696)**	(2,149,671)	(1,774,581)	**(2,298,544)**	(2,295,404)
	(2,620,419)	(2,505,394)	(2,130,304)	**(2,284,704)**	(2,281,564)

(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$2.00. The warrants will expire on 18 September 2018. On the expiry of the warrants, the balance in the warrant reserve will be transferred to retained earnings.

16 Borrowings

The Group	**2017 RMB'000**	2016 RMB'000
Short-term secured loans from banks:		
Industrial and Commercial Bank of China[1]	**109,950**	112,178
China CITIC Bank[2]	**318,830**	519,000
Shanghai Pudong Development bank[3]	**76,000**	–
China Minsheng Bank[4]	**43,000**	45,000
China Everbright Bank[5]	**98,000**	98,000
Hu Zhou Wuxing Rural cooperative[6]	**25,000**	25,000
Chouzhou Commercial Bank[7]	**20,000**	20,000
Syndicated bank loans[10]	**15,200**	405,000
	705,980	1,224,178
Other short-term secured loans[8]	**433,100**	469,750
Total short-term financial liabilities	**1,139,080**	1,693,928
Long-term secured loans from banks:		
China CITIC Bank[9]	**224,000**	–
Syndicated bank loans[10,#]	**299,000**	–
Total long-term financial liabilities	**523,000**	–
Total borrowings	**1,662,080**	1,693,928
Breakdown of syndicated bank loans[10]:		
Shanghai Pudong Development Bank[10]	**–**	78,000
China Construction Bank[10]	**238,200**	249,000
Bank Of China[10]	**76,000**	78,000
	314,200	405,000

#: During the financial year, the Group entered into a supplement agreement on the original syndicated loan agreement to refinance its existing syndicated bank loans to be repaid by 30 November 2019. Management considered this as a modification and has assessed the impact to be immaterial.

16 Borrowings (Cont'd)

1 As at 31 December 2017, these twelve (2016 - eighteen) secured short-term bank loans bear interest at a rate of 5.0% (2016 - 4.35% to 5.0%) per annum and are secured against third parties' land use rights and certain property, plant and equipment (Note 5), land use rights (Note 7) 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 2017, these five (2016 - nineteen) secured short-term bank loans bear interest at a rate of 4.35% to 5.4% (2016 - 5.22% to 6.15%) per annum and are secured against 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 2017, these three secured short term bank loans bear interest at a rate of 4.57% per annum and are secured against a personal guarantee from a shareholder and corporate guarantees from the Company's subsidiaries, Zhejiang Huagang Polyester Industrial Co., Ltd and Huaxiang (China) Premium Fibre Co., Ltd and against certain property, plant and equipment (Note 5) and land use rights (Note 7).

4 As at 31 December 2017, these three (2016 - four) secured short-term bank loans bear interest at a rate of 5.9% (2016 - 6.0%) 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 2017, these five (2016 - three) secured short-term bank loans bear interest at a rate of 6.80% (2016 – 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 2017, these four (2016 - four) secured short-term bank loans bear interest at a rate of 6.09% to 7.40% (2016 - 6.09% to 7.40%) per annum and are secured against certain property, plant and equipment (Note 5).

7 As at 31 December 2017, these one (2016 - one) secured short-term bank loan bears interest at a rate of 6.0% (2016 – 7.0%) per annum and is secured against 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 2017, the other short-term secured loans bear interest at a rate of 1.00% to 2.00% (2016 - 1.00% to 2.50%) per month and are secured by a personal guarantee from a shareholder.

9 As at 31 December 2017, these two secured long-term bank loans bear interest at a rate of 4.8% 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 2017, these one (2016 - one) secured syndicated bank loans were drawndown to finance the construction and operation of new Huaxiang Project bear interest at a rate of 4.99% to 5.15% (2016 - 4.99% to 6.30%) per annum and are secured against certain property, plant and equipment (Note 5), land use rights (Note 7), and a personal guarantee from a shareholder.

17 Trade and other payables

	The Group			The Company	
	2017	2016	2015	**2017**	2016
	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade payables	**105,005**	120,772	85,538	**–**	–
Other payables (Note A)	**281,498**	333,616	96,432	**–**	–
Bills payables to financial institutions (Note B)	**17,596**	130,600	487,455	**–**	–
Payables for the acquisition of property, plant and equipment	**61,867**	91,909	63,290	**–**	–
Amount due to a shareholder (non-trade)	**5,000**	5,000	–	**–**	–
Amounts due to subsidiaries (non-trade)	**–**	–	–	**65,566**	61,582
Financial liabilities carried at amortised cost	**470,966**	681,897	732,715	**65,566**	61,582
Other operating tax payable	**–**	–	2,890	**–**	–
Total trade and other payables	**470,966**	681,897	735,605	**65,566**	61,582

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 and repayable on demand.

Note A: Other payables

The Group	**2017** **RMB'000**	2016 RMB'000 (Restated)	2015 RMB'000 (Restated)
Advances from government-linked entities (non-trade)	**255,163**	255,163	89,200
Advances from third parties (non-trade)*	**26,335**	78,453	3,497
Others	**–**	–	3,735
	281,498	333,616	96,432

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

*: As at 31 December 2016, the advances from third parties comprised an amount of RMB 50.0 million due to a lessor of a subsidiary. This amount has been fully settled during the current financial year.

Note B: Bills payables to financial institutions

As at 31 December 2017, bills payables to banks are secured by short term deposits, and certain production and office building of the Group as disclosed below:

The Group	**2017** **RMB'000**	2016 RMB'000
Bank deposits pledged	**17,597**	109,521
Carrying amount of property, plant and equipment (Note 5(a))	**–**	235,963

Bills payables to financial institutions have an effective interest rate of 0.65% per annum (2016 - 2.32% per annum) for the financial year ended 31 December 2017.

18 Other liabilities

	The Group		The Company	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**383**	2,066	**–**	–
Accrued interest	**147,324**	107,826	**–**	–
Accrued guarantee and consultancy fees payable to a shareholder	**25,233**	25,233	**25,233**	25,233
Accrued remuneration and related cost	**20,439**	12,967	**500**	501
Other accrued expenses	**9,490**	9,834	**2,843**	3,706
	202,869	157,926	**28,576**	29,440

Other accrued expenses mainly comprise of accrued operating expenses and accrued professional fees.

19 Revenue

	2017	2016
The Group	**RMB'000**	RMB'000
- Sale of goods	**2,344,497**	1,160,827
- Profit sharing from Cooperation Agreement*	**169,700**	12,915
	2,514,197	1,173,742

* 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.

20 Other income

	2017	2016
The Group	**RMB'000**	RMB'000
Other income		
- Sale of scrap materials	**10,628**	5,437
- Net trading income	**4,766**	–
- Government grant	**817**	3,426
- Operating lease income	**2,775**	3,254
- Others	**68**	5
	19,054	12,122

21 Finance income/(expense)

	2017	2016
The Group	**RMB'000**	RMB'000
Interest income from:		
- cash and cash equivalents	**2,773**	2,491
Interest expense on:		
- bank loans, bill payables and other secured loans	**(120,773)**	(140,873)

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22 Loss before tax

The Group	Note	2017 RMB'000	2016 RMB'000
Loss before income tax is arrived at after charging/ (crediting):			
Allowance for impairment of trade and other receivables	11	**10,068**	29,228
Amortisation of land use rights	7	**3,646**	3,646
Amortisation of land preparation costs	8	**1,667**	1,665
Depreciation of property, plant and equipment	5	**159,142**	138,457
Employee compensation*	23	**81,805**	56,701
Foreign exchange loss, net		**75**	75
Guarantee fee and consultancy fee paid/payable to a shareholder		**–^**	–^
Impairment loss on property, plant and equipment (included in general and administrative expenses)	5	**–**	112,010
Inventories recognised as an expense in cost of sales		**1,977,254**	883,579
Loss on disposal of property, plant and equipment		**1,699**	–
Operating lease expenses		**12,000**	12,000
Reversal of impairment loss	11	**(29,994)**	–

* Includes remuneration of key management personnel and directors as disclosed in Note 23 to the financial statements.

^ The major shareholder agreed to waive the guarantee fee and consultancy fee for the financial year ended 31 December 2017 and 2016.

23 Employee compensation

The Group	2017 RMB'000	2016 RMB'000
Directors' fees – directors of the Company	**412**	370
Salaries, wages and bonuses and related costs	**72,481**	49,421
Employer's contribution to defined contribution plans	**8,912**	6,910
	81,805	56,701
Comprising the following:-		
Directors' fees – directors of the Company	**412**	370
Directors' remuneration other than fee:		
- Directors of the Company	**356**	1,013
- Employer's contribution to defined contribution plans	**15**	15
	371	1,028
Key management personnel (other than directors):		
- Salaries, wages, bonus and other related costs	**387**	372
- Employer's contribution to defined contribution plans	**8**	7
	395	379
Other than directors and key management personnel:		
- Salaries, wages, bonus and other related costs	**71,738**	48,036
- Employer's contribution to defined contribution plans	**8,889**	6,888
	80,627	54,924
	81,805	56,701

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

24 Income tax expense

Major components of income tax expense

The major components of income tax expense for the year ended 31 December 2017 and 31 December 2016 are:

The Group	**2017** **RMB'000**	2016 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 2017 and 31 December 2016 is as follows:

The Group	**2017** **RMB'000**	2016 RMB'000
Loss before tax	**(115,025)**	(375,090)
Tax at applicable statutory tax rates	**(27,928)**	(93,530)
Effects of:		
- Income not subject to tax	**(7,498)**	–
- Expenses not deductible for tax purposes	**22,842**	48,776
- Deferred tax assets not recognised	**12,584**	44,754
Income tax expense recognised in the consolidated statement of comprehensive income	**–**	–

Income not subject to tax mainly include the reversal of impairment loss during the financial year.

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 2018 (YA2017 - 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 2017 (2016 - 25%).

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately RMB 623.4 million (2016 - RMB 573.0 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.

25 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 divided by the weighted average number of ordinary shares in issue of 113,750,000 shares (2016 – 113,750,000 shares) during the financial year. The denominators used are the same in the computation of the basic and diluted loss per share.

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	**2017** **RMB'000**	2016 RMB'000
Loss for the year attributable to owners of the parent (RMB'000)	**(115,025)**	(375,090)
Weighted average number of ordinary shares ('000)	**113,750**	113,750
Loss per share (RMB)		
- Basic and diluted	**(1.01)**	(3.30)

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

26 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 six 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.

26 Segment information (Cont'd)

Reporting format (Cont'd)

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 2017 and 2016:

2017	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
The Group							
Revenue							
Sales to external customers	**956,389**	**158,136**	**2,231**	**529,566**	**698,175**	**169,700**	**2,514,197**
Results							
Segment gross profit/(loss)	**52,852**	**10,100**	**(2,174)**	**13,091**	**5,159**	**–**	**79,028**
2016							
Revenue							
Sales to external customers	465,128	145,014	–	378,099	172,586	12,915	1,173,742
Results							
Segment gross profit/(loss)	9,472	11,338	–	(3,453)	(6,225)	–	11,132

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.

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 (2016 - one) of the Group's customers separately accounted for 100% (2016 – 10%) of the Group's sales, derived from sale of FDY, DTY, BY, POY, PET Chips and revenue from Framework Supply Chain Cooperation with Zhejiang Materials segments.

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27 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	2017 RMB'000	2016 RMB'000
Commitment in respect of:		
Purchase of plant and production machinery	**18,945**	–

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

In addition to the land use rights disclosed in Note 7, during the financial year, the Group renewed the 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 another three years, commencing from 1 November 2017 to 31 October 2020, 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 2017 amounted to RMB 17.3 million (2016 - 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	2017 RMB'000	2016 RMB'000
Not later than 1 year	**12,000**	10,000
Later than 1 year but not later than 5 years	**22,000**	–
	34,000	10,000

(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(e)) with term of more than one year:

The Group	2017 RMB'000	2016 RMB'000
Not later than 1 year	**920**	1,150
Later than 1 year but not later than 5 years	**920**	1,600
Later than 5 years	**–**	–
	1,840	2,750

(d) Participation fee commitments

The Group	2017 RMB'000	2016 RMB'000
Not later than 1 year	**2,492**	2,492
Later than 1 year but not later than 5 years	**–**	–

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 2019 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 6-year syndicated loans.

28 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 includes 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.

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.

28 **Financial risk management objectives and policies (Cont'd)**

Credit risk (Cont'd)
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.

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 2017, two customers (2016 - two) have aggregated outstanding balances exceeded 99% (2016 - 90%) of the outstanding trade receivables net of allowance for impairment of trade receivables.

Financial assets that are neither past due nor impaired
Loans and 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.

28 **Financial risk management objectives and policies (Cont'd)**

Liquidity risk (Cont'd)

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 a 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 funding from shareholder.

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.

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**
2017					
Financial liabilities:					
Borrowings (Note 16)	**(1,662,080)**	**(1,758,363)**	**(1,439,801)**	**(94,263)**	**(224,299)**
Trade and other payables (Note 17)	**(470,966)**	**(470,966)**	**(470,966)**	-	-
Other liabilities (Note 18)	**(202,869)**	**(202,869)**	**(202,869)**	-	-
Total undiscounted financial liabilities	**(2,335,915)**	**(2,432,198)**	**(2,113,636)**	**(94,263)**	**(224,299)**
The Company					
2017					
Financial liabilities:					
Trade and other payables (Note 17)	**(65,566)**	**(65,566)**	**(65,566)**	-	-
Other liabilities (Note 18)	**(28,576)**	**(28,576)**	**(28,576)**	-	-
Total undiscounted financial liabilities	**(94,142)**	**(94,142)**	**(94,142)**	-	-

28 **Financial risk management objectives and policies (Cont'd)**

Liquidity risk (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
2016					
Financial liabilities:					
Borrowings (Note 16)	(1,693,928)	(1,787,489)	(1,787,489)	-	-
Trade and other payables (Note 17)	(681,897)	(681,897)	(681,897)	-	-
Other liabilities (Note 18)	(157,926)	(157,926)	(157,926)	-	-
Total undiscounted financial liabilities	(2,533,751)	(2,627,312)	(2,627,312)	-	-

The Company	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
2016					
Financial liabilities:					
Trade and other payables (Note 17)	(61,582)	(61,582)	(61,582)	-	-
Other liabilities (Note 18)	(29,440)	(29,440)	(29,440)	-	-
Total undiscounted financial liabilities	(91,022)	(91,022)	(91,022)	-	-

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.

Financial instruments by category

	The Group		The Company	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Financial assets				
Financial assets measured at amortised cost:				
Trade and other receivables (Note 11)	**112,979**	128,182	**-**	-
Bank deposit pledged (Note 12)	**17,767**	118,930	**-**	-
Cash and short term deposits (Note 13)	**15,964**	2,464	**18**	38
	146,710	249,576	**18**	38
Financial liabilities				
Financial liabilities measured at amortised cost:				
Borrowings (Note 16)	**(1,662,080)**	(1,693,928)	**-**	-
Trade and other payables (Note 17)	**(470,966)**	(681,896)	**-**	(61,582)
Other liabilities (Note 18)	**(202,869)**	(157,926)	**(28,576)**	(29,440)
	(2,335,915)	(2,533,750)	**(28,576)**	(91,022)

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.

for the financial year ended 31 December 2017

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

Interest rate risk (Cont'd)
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	**2017 RMB'000**	2016 RMB'000
Fixed rate instruments		
Financial liabilities		
- loans from banks and non-financial institutions	**(433,100)**	(469,750)
Variable rate instruments		
Financial assets		
- Bank deposits pledged	**17,767**	118,930
- Bank balances	**15,964**	2,464
- Bills receivables	**861**	50
Financial liabilities		
- bank loans (secured)	**(1,228,980)**	(1,224,178)
- bills payable to banks	**(17,594)**	(130,600)
	(1,211,982)	(1,233,334)

Interest rate risk

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 2017, if RMB interest rates had been 100 basis points (2016 - 100 basis points) lower/higher with all other variables held constant, the Group's loss after tax would have been RMB 9.1 million (2016 - RMB 9.3 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.

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 Singapore dollar. The Group holds cash and bank balances denominated in United States dollar and Singapore dollar for working capital purposes.

28 **Financial risk management objectives and policies (Cont'd)**

Foreign currency risk (Cont'd)

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:

	2017		2016	
The Group	**SGD**	**USD**	SGD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and short-term deposits	**12**	**3**	32	3
Other liabilities	**–**	**–**	(4,207)	–
	12	**3**	(4,175)	3

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.

		Loss net of tax / Equity	
		2017	2016
The Group		**RMB'000**	RMB'000
SGD/RMB	- strengthened 3% (2016 - 3%)	**–**	(94)
	- weakened 3% (2016 - 3%)	**–**	94

29 **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).

29 Fair value measurement (Cont'd)

Accounting classifications and fair values (Cont'd)

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.

30 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 does not adopt any formal dividend policy.

No changes were made in the objectives, policies or processes during the financial year ended 31 December 2017. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital using a capital net debt 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.

The Group	**2017** **RMB'000**	2016 RMB'000
Borrowings (Note 16)	**1,662,080**	1,693,928
Trade and other payables (Note 17)	**470,966**	681,897
Other liabilities (Note 18)	**202,869**	157,926
Total debt	**2,335,915**	2,533,751
Less: Cash and bank balances (Note 13)	**(33,731)**	(121,394)
Net debt	**2,302,184**	2,412,357
Equity attributable to the equity holders	**(429,839)**	(314,814)
Capital and net debt	**1,872,345**	2,097,543
Capital net debt ratio	**123.0%**	115.0%

for the financial year ended 31 December 2017

31 Prior year adjustments and comparative figures

Management corrected the material prior year's errors identified above by restating the comparative amounts for the prior period's statement of financial position and statement of comprehensive income in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Accordingly, a third statement of financial position is presented.

The Group	As reported previously 31.12.2016 RMB'000	Prior year adjustments RMB'000	As restated 31.12.2016 RMB'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	1,348,779	(21,041) [1] 21,041 [2]	1,348,779
Current Liabilities			
Trade and other payables	702,938	(21,041) [1]	681,897
Equity			
Accumulated losses	(2,170,712)	21,041 [2]	(2,149,671)

The Group	As reported previously 31.12.2015 RMB'000	Prior year adjustments RMB'000	As restated 31.12.2015 RMB'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	1,530,276	(21,041) [1] 21,041 [2]	1,530,276
Current Liabilities			
Trade and other payables	756,646	(21,041) [1]	735,605
Equity			
Accumulated losses	(1,795,622)	21,041 [2]	(1,774,581)

1. Certain plant and machinery amounting to RMB 21.0 million arising from the Huaxiang Project in FY 2014 have been capitalised twice in Huaxiang China's fixed assets register, with a corresponding increase recorded in "advances from third parties (non-trade)" within "trade and other payables" as disclosed in Note 17 to the financial statements. Accordingly, an adjustment was made to rectify the overstatement of property, plant and equipment and trade and other payables as at 31 December 2016 and 1 January 2016. Management has considered the depreciation effects on FY2016 is immaterial to be adjusted.

2. Arising from (1), management has correspondingly adjusted the overstatement of impairment loss of RMB 21 million previously recognised on the Group's property, plant and equipment in FY2015 as the impairment loss determined at that reporting date was based on the difference between the recoverable amount and the carrying amount of the Group's property, plant and equipment, which included the error mentioned in (1).

32 Other Matter

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 has engaged a Singapore legal professional to seek legal advice. Management has assessed that the financial impact, including any outflows to settle this obligation, if any, will not be significant to the Group.

SHAREHOLDERS' INFORMATION

as at 15 March 2018

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
Number and Percentage of Treasury Shares	:	Nil
Number and Percentage of Subsidiary Holdings Held	:	Nil

STATISTICS OF SHAREHOLDINGS

Size of Shareholding			Number of Shareholders	%	Number of Shares	%
1	–	99	56	2.50	2,695	0.00
100	–	1,000	837	37.33	469,745	0.41
1,001	–	10,000	1,029	45.90	3,958,319	3.48
10,001	–	1,000,000	312	13.91	16,047,845	14.11
1,000,001	and above		8	0.36	93,271,393	82.00
			2,242	**100.00**	**113,749,997**	**100.00**

SUBSTANTIAL SHAREHOLDERS AS AT 15 MARCH 2018

(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)	29,996,214	26.37	–	–
China Full International Investments Limited(3)(4)	–	–	29,996,214	26.37
Orient Fame (Asia) Limited(3)(5)	–	–	29,996,214	26.37
Ye Chunyan(4)	–	–	29,996,214	26.37
Lin Liangzhu(5)	–	–	29,996,214	26.37

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) China Full International Investments Limited ("China Full International Investments") is a shareholder of Fleur Growth Fund Limited ("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 in the capital of the Company through her shareholdings in China Full International Investments.

(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 in the capital of the Company through his shareholdings in Orient Fame Asia.

SHAREHOLDERS' INFORMATION (CONT'D)

as at 15 March 2018

TWENTY LARGEST SHAREHOLDERS AS AT 15 MARCH 2018

No.	Name of Shareholders	Number of Shares	%
1.	PHILLIP SECURITIES PTE LTD	66,103,044	58.11
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	15,638,369	13.75
3.	RAFFLES NOMINEES (PTE) LTD	3,955,295	3.48
4.	LOW CHAI CHONG	2,571,429	2.26
5.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,344,400	1.18
6.	LOW GEOK LIN JUDITH	1,317,750	1.16
7.	UOB KAY HIAN PTE LTD	1,300,300	1.14
8.	DBS NOMINEES PTE LTD	1,040,806	0.91
9.	NG KEN WOH	748,300	0.66
10.	YAP CHEE WEE (YE ZHIWEI)	642,857	0.57
11.	TAN KIAN CHYE	580,000	0.51
12.	ZHANG ZENGTAO	550,000	0.48
13.	QUEK JIN OON	539,500	0.47
14.	ONG ENG LOKE	483,500	0.43
15.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	471,123	0.41
16.	TAN LYE SENG	451,600	0.40
17.	LIM KIM CHIN	396,100	0.35
18.	LONG YUIN LEE	225,000	0.20
19.	WONG YUN HEY	225,000	0.20
20.	HELEN YANG	205,000	0.18
	TOTAL:	**98,789,373**	**86.85**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

48.24% 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.

as at 15 March 2018

STATISTICS OF WARRANTHOLDINGS

Size of Warrantholdings		Number of Warrantholders	%	Number of Warrants	%
1	– 99	217	9.07	9,761	0.02
100	– 1,000	1,288	53.82	597,780	1.05
1,001	– 10,000	682	28.50	2,020,170	3.55
10,001	– 1,000,000	202	8.44	13,387,085	23.54
1,000,001	and above	4	0.17	40,860,200	71.84
		2,393	**100.00**	**56,874,996**	**100.00**

TWENTY LARGEST WARRANTHOLDERS AS AT 15 MARCH 2018

No.	Name of Warrantholders	Number of Warrants	%
1.	PHILLIP SECURITIES PTE LTD	30,219,958	53.13
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	7,750,752	13.63
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	693,825	1.22
7.	LOW GEOK LIN JUDITH	658,875	1.16
8.	BOON SUAN LEE	594,400	1.05
9.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	533,475	0.94
10.	TAI LI JIUEN (DAI LIJUAN)	375,000	0.66
11.	LIM LEONG KOO	350,000	0.62
12.	ZHANG ZENGTAO	275,000	0.48
13.	KAM KENG SENG	257,805	0.45
14.	LIM TECK CHAY	250,000	0.44
15.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	235,561	0.41
16.	LOO LIP GIAM	230,000	0.40
17.	TAN KIAN CHYE	202,500	0.36
18.	CHENG WA SING	190,150	0.33
19.	VINAY MATHUR	188,500	0.33
20.	LAU ENG KIM	170,500	0.30
	TOTAL:	**47,037,841**	**82.70**

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 Road, Singapore 188983 on Friday, 27 April 2018 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Directors' Statement and the Auditor's Report thereon. **(Resolution 1)**

2. To re-elect Mr Lin Xingdi, the Director who is retiring pursuant to Article 114 of the Constitution of the Company. **(Resolution 2)**

   Mr Lin Xingdi will, upon re-election as a Director of the Company, remain as Executive Director and Chief Executive Officer of the Company.

3. To re-elect Mr Sze Man Kam, the Director who is retiring pursuant to Article 114 of the Constitution of the Company. **(Resolution 3)**

   *Mr Sze Man Kam will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and a member of the Remuneration Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").*

4. To approve the payment of Directors' fees of S$100,000 for the financial year ending 31 December 2018, to be paid quarterly in arrears. (FY2017: S$100,000) **(Resolution 4)**

5. To re-appoint Foo Kon Tan LLP as Auditor of the Company and to authorise the Directors to fix its remuneration. **(Resolution 5)**

6. 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 as Ordinary Resolution, with or without any modifications:

7. **Ordinary Resolution – Authority to Allot and Issue Shares**

   That pursuant to Section 161 of the Companies Act (Chapter 50) and Rule 806 of the Listing Manual of the SGX-ST, the Directors be authorised and empowered to:

   (a) (i) allot and issue shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

   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 that 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:

(i) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution), shall not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (ii) below), of which the aggregate number of Shares to be issued other than on a pro rata basis to shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed 20% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (ii) below);

(ii) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) that may be issued under sub-paragraph (i) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) shall be based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time this Resolution is passed, after adjusting for:

(a) new Shares arising from the conversion or exercise of any convertible securities;

(b) new Shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed, provided the share options or share awards (as the case may be) were granted in compliance with Part VIII of the Chapter 8 of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or sub-division of Shares;

(iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable requirements under the Companies Act (Chapter 50) and the Constitution of the Company for the time being; and

(iv) the authority conferred by this Resolution shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note i)] **(Resolution 6)**

By Order of the Board

Cheok Hui Yee
Company Secretary

Singapore
12 April 2018

Explanatory Notes on Special Business to be transacted:

(i) The Ordinary Resolution 6 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 allot and issue Shares, to make or grant Instruments convertible into Shares, and to allot and issue Shares in pursuance of such Instruments, up to a number not exceeding, in total, 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) 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.

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)

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.

PROXY FORM

(Please see notes overleaf before completing this Form)

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 Road, Singapore 188983 on Friday, 27 April 2018 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	Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Directors' Statement and the Auditor's Report thereon.		
2	Re-election of Mr Lin Xingdi as a Director		
3	Re-election of Mr Sze Man Kam as a Director		
4	Approval of Directors' fees amounting to S$100,000 for the financial year ending 31 December 2018, to be paid quarterly in arrears		
5	Re-appointment of Foo Kon Tan LLP as Auditor		
6	Authority to allot and issue shares		

[(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 2018

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

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

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 12 April 2018.

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.

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

(Company Registration No. 200817812K)

www.chinagaoxian.com