

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.
(中国高纤控股有限公司)
(Company Registration No. 200817812K)
(Incorporated in Singapore on 9 September 2008)

**FURTHER INFORMATION ON THE COMPANY'S FULL YEAR RESULTS ANNOUNCEMENT
DATED 1 MARCH 2018**

*Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Company's Full Year Results for the financial year ended 31 December 2017 which was released to the Singapore Exchange Securities Trading Limited ("SGX-ST") on 1 March 2018 ("**Full Year FY2017 Results Announcement**").*

The Board of Directors (the "**Board**") of China Gaoxian Fibre Fabric Holdings Ltd. (the "**Company**") and together with its subsidiaries, the "**Group**") refers to the Company's Full Year Results Announcement and wishes to provide further information as follows:-

SGX-ST's questions:-

- 1. On page 4 of the Full Year FY2017 Results, the Company disclosed that "Short term loans" amounted to RMB 1,139 million. Please:**
 - i. Provide details of these "Short term loans" including the identity of the lender, interest rates, loan covenants, security, value of security, maturity and other material terms of the loans; and**
 - ii. Noting that the Company is in a net current liabilities position of RMB1.5 billion with capital deficit of RMB0.45 billion please provide information to elaborate on how these "Short term loans" will be repaid as and when they fall due.**

Company's response:-

- (i) Please refer to Notes to Accounts ("**NTA**") No.16 of the Annual Report FY2017 ("**AR2017**") to be released on 12 April 2018, pages 75 and 76 for details, and also refer to Appendix 1 for details.
 - (ii) Please refer to NTA No.2 of the AR2017 to be released on 12 April 2018, pages 45 and 46 for details. The company will use the following ways to repay/refinance its short term loans:
 - (a) Operating cash flows generating from the full production of Huaxiang China plant;
 - (b) Surplus cash from the operation of Supply Chain Cooperation Agreement with Zhejiang Materials;
 - (c) Refinancing its short term loans when they fall due under the personnel guarantee from one of the shareholder – Mr. Cao Xiangbin; and
 - (d) Huaxiang (China) Premium Fibre Co., Ltd ("Huaxiang China") has been included in the list of local enterprises shortlisted by the People's Government of Huzhou City to receive financial assistance from its principal bankers. This is part of the government wide initiatives to assist local enterprises who are facing financial difficulties. On 21 March 2016, 湖州市金融工作办公室, 湖州市经济信息化委员会 and 湖州银监分局 (collectively known as the "Government Agencies") jointly issued an Official Circular (湖金融办函 (2016) 1 号) to notify 57 local enterprises, including Huaxiang China that the Government Agencies have issued specified guidelines to their respective principal bankers to provide the necessary reasonable financial assistance, including but not limited to, restructuring of the existing loans drawn down by the local enterprises.
- 2. Noting the Company's net loss of RMB 115 million, the Company's capital deficit position of RMB450.88 million with "Cash and cash equivalents" balance of only RMB15.96 million but interest expense of RMB 120 million per annum, please:**
 - i. Disclose the Board's opinion if the Company will be able to operate as a going concern and the basis for the Board's view;**

- ii. *Disclose the Board's confirmation that all material disclosures have been provided for the trading of the Company's shares to continue; and*
- iii. *Substantiate with details on how the Company is able to operate as a going concern, noting its capital deficit position of RMB450.88 million and negative working capital position of RMB1.8 billion. Please elaborate to explain whether the Company will be able to repay short term obligations as and when they fall due.*

Company's response:-

Please refer to NTA No.2 of the AR2017 to be released on 12 April 2018, pages 45 and 46 for details.

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
- (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 and were secured by personal guarantees from that shareholder.

3. *On page 5 of the Full Year FY2017 Results, the Company disclosed that "As at 31 December 2017, the short term and long term bank loans are secured by pledge of land use rights, production and office buildings, corporate guarantees from the subsidiaries, personal guarantee from a shareholder, Mr. Cao Xiangbin." Please:*

- i. *Quantify the market value of each of the land use rights, production and office buildings that have been pledged; and*
- ii. *Disclose the Board's consideration and opinion whether and how Mr Cao Xiangbin has the financial strength to support this guarantee as and when such guarantees are drawn upon. To substantiate the Board's opinion, please quantify and provide details of financial resources/assets.*

Company's response:-

- (i) Please refer to NTA No.2 of the AR2017 to be released on 12 April 2018, pages 45 and 46 for details.

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	Bank loans and bills payable to bank	Mortgaged to Zhejiang Materials	Total
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as security	(Notes 16 & 17)		(Note 19)			
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 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

During year of 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 lossor 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.

- (ii) The Board believes that Mr Cao Xiangbin ("Mr Cao") has met financial institutions' strict credit assessment to accept Mr Cao's personal guarantees. This personal guarantee is provided by Mr Cao in favour to the Company without seeking any guarantee fee in 2016 and 2017. For more details of Mr Cao's personal guarantee arrangement, please refer to the Company's Circular dated 29 May 2013.

In addition, Huaxiang China's production will generate free cash from operations, the financial institutions and non-financial institutions are willing to continue to provide fresh financing to the Group subsequent to balance sheet date, despite the Group's deficiency in net current assets, indirectly demonstrates Mr Cao's creditworthiness in the perspective of the lenders, who would have performed the necessary credit assessment of Mr Cao as the guarantor.

4. On page 13 of the Full Year FY2017 Results, relating to "Other receivables" the Company disclosed that "RMB 105.4 million of Input VAT receivables from domestic machines purchased for the Huaxiang Project can be used to set off future VAT payment generated by the sales from the Huaxiang plant;" Please disclose:

- i. The conditions for future offset;**
- ii. How much of these VAT receivables have been provided to date and how much have been offset to-date; and**
- iii. When the Company expects to commence claiming of the offset.**

Company's response:-

- (i) VAT Receivables can be claimed as and when Output VAT Tax is greater than Input VAT Tax, through monthly VAT submission.
- (ii) The Group's VAT receivables as at 31 December 2017 was RMB 105.3 million and RMB 44.12 million was offset during FY2017.
- (iii) The Group will claim the VAT receivables to offset the Net Output VAT Tax through VAT submission on a monthly basis.

5. Relating to "Other receivables", the Company also disclosed that "RMB 20 million of deposits paid to Zhejiang Materials Industry;" Please:

- i. Provide details of the underlying terms;**
- ii. Explain why the RMB20 million of deposits were paid to Zhejiang Materials Industry; and**
- iii. Disclose when the deposits were paid.**

Company's response:-

(i) & (ii)

Pursuant to the announcement on 19 December 2016, 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 (the "Agreement") with Zhejiang Materials Industry Chemical Group Co., Ltd ("Zhejiang Materials"), an independent third party, for a period of 3 years, commencing from 1 December 2016 to 31 December 2019. One of the salient terms of the agreement is "The Group is required to provide a guarantee deposit of RMB 30 million and pledged some of its equipment to Zhejiang Materials. Zhejiang Materials has the right to offset its losses against the guarantee deposit or dispose of the Group's assets pledged with Zhejiang Materials to recover the losses incurred due to Huaxiang China's negligence in manufacturing and caused destroy of raw materials."

(iii) On 9 December 2016, the Group has paid RMB 30.0 million to Zhejiang Materials and subsequently in FY2017, Huaxiang China has recovered a total of RMB 10.0 million from Zhejiang Materials.

6. On page 14 of the Full Year FY2017 Results, the Company disclosed that "other payables" include "Proceeds of interest-free loans from 2 state-owned entities amounting to RMB 255.2 million;" Please:

- i. Disclose the identities of the 2 state-owned entities;**
- ii. Provide details on why the 2 state-owned entities are extending interest free loans to the Company amounting to RMB 255.2million;**
- iii. Disclose how the loan amount was arrived at and the use of proceeds; and**
- iv. Value of the project for which the proceeds of loan was applied, where applicable.**

Company's response:-

(i) The 2 state-owned entities are 湖州吴兴南太湖建设投资有限公司 and 湖州吴兴民间融资服务中心有限公司.

(ii) & (iii)

As part of the government's project of "Business Headquarter District", the abovementioned state-owned entities have granted the Group an interest-free loan of RMB 255.2 million for the Group's Huaxiang office building project and working capital.

(iv) On 7 April 2016, the Group has received a Letter of Intent from the People's Government of Huzhou City that the latter has the intention to acquire the Group's investment property - construction work-in-progress, a 26-storey commercial and office building with 2 basement floors, with a total area of 51,858 square metres (excluding common area) at a rate of RMB 4,200 per square metre. The purchase price is expected to be RMB 217.8 million.

7. In paragraph 10, the Company also disclosed that "since the second quarter for the financial year ended 31 December 2016, the production level has improved to full capacity." Please explain why the operation is still incurring a significant loss of RMB 115 million despite the plant operating at full capacity and the significant impairments of Fixed Assets amounting to RMB 112 million in FY2016 and RMB 504 million in FY2015 which had already significantly reduced the value of fixed assets in the past several financial years.

Company's response:-

The Group's EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation) for FY2017 was RMB 170.20 million (net profit) as compared to net loss of RMB 90.45 million for FY2016.

8. On 7 September 2014, the Company announced that it had acquired the Non-Performing Loan of RMB 80 million from Citic Bank extended to Fujian DiBang Group Co. ("DB") with security rights over "DB Assets" comprising of "(i) 40.63 million of equity shares in Rural Commercial Bank of Fuzhou ("RCBF") and (ii) a commercial unit located on the 12th floor of Fuzhou Wuyi Center Building".

Subsequently, the Company announced on 14 August 2015 in its 2QFY2015 results of an auction of the DB Assets for 30,220,282 equity shares of Rural Commercial Bank of Fuzhou at RMB 78.7 million; and the commercial unit at RMB 9.4 million, amounting to total proceeds of RMB 88.1 million.

The Company also disclosed a dispute by the creditors of Dibang Group over 7,532,382 equity shares ("Disputed Equity Shares") out of the auctioned 30,220,282 equity shares of Rural Commercial Bank of Fuzhou. The Group eventually received a partial payment of RMB 69,056,822.10 from Citic Bank awarded by the PRC Court of Fuzhou.

On 1 March 2018, the Company announced in its Full Year FY2017 Results that "The Fujian Fuzhou City Supreme Court ("the Court") has issued a statement relating to the update on the status of disputed proceeds in February 2016. According to the statement, only RMB 10.0 million was left to be distributed amongst 13 Creditors (including the Group's subsidiary, NHW)."

Please provide an update on the status of:

- i. The balance amount of 10.63 million equity shares in Rural Commercial Bank of Fuzhou (40.63 million – 30.22 million = 10.63 million equity shares) which were not auctioned as at 2Q2015;
- ii. The 7.53 million Disputed Equity Shares;
- iii. The disputed amount of RMB 19.04 million (RMB 88.1 million – RMB 69.06 million = RMB 19.04 million) of the auction proceeds; and
- iv. whether the balance amount RMB 19.04 million is related to the RMB 10.0 million that will have to be distributed amongst 13 Creditors. If so, please advise what is the amount out of the RMB 10 million that the Company is entitled to.

Company's response:-

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.

BY ORDER OF THE BOARD

Tham Wan Loong, Jerome
Executive Director
9 April 2018

Appendix 1:

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

¹ As at 31 December 2017, these twelve secured short-term bank loans bear interest at a rate of 5.0% per annum and are secured against third parties' land use rights and certain property, plant and equipment, land use rights and a pledged deposit of RMB 8.92 million, 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 secured short-term bank loans bear interest at a rate of 4.35% to 5.4% per annum and are secured against certain property, plant and equipment, 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 and land use rights.

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

⁷ As at 31 December 2017, these one secured short-term bank loan bears interest at a rate of 6.0% per annum and is secured against certain property, plant and equipment 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% 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 secured syndicated bank loans were drawn down to finance the construction and operation of new Huaxiang Project bear interest at a rate of 4.99% to 5.15% per annum and are secured against certain property, plant and equipment, land use rights, and a personal guarantee from a shareholder.