



CHINA SKY CHEMICAL FIBRE CO., LTD
(Company Registration Number: CT-146759)
(Incorporated in the Cayman Islands on 29 March 2005)

RESPONSE TO SGX QUERIES

The Board of Directors (“**Board**”) of China Sky Chemical Fibre Co., Ltd (the “**Company**”), together with its subsidiaries (the “**Group**”) wishes to respond to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 7 February 2018 in connection with the Company’s announcement on 5 February 2018.

Query 1 :

We refer to the Company’s Announcement on 5 February 2018. In relation to the Legal Proceedings filed in Singapore, the Company disclosed that “The Company has not received notification that the Writ of Summons (the “Writ”) issued against Mr Zheng (郑开苏) has been successfully served on him, and it has since expired on 23 October 2017.” However, in the section relating to “Update on Chinese Subsidiaries and Actions Taken in China”, the Company was “verbally told by Mr Zheng (郑开苏) that all the assets were sold for less than RMB 300 million.”

- (i) Why has the Company not received notification that the Writ of Summons (the “Writ”) issued against Mr Zheng (郑开苏) has been successfully served on him? Who is supposed to update the Company and why has the person/law firm not provided an update to the Company on this matter?
- (ii) Please elaborate why the Company was able to be verbally informed by Mr Zheng (郑开苏), but yet they were not able to serve the Court documents to him?

Company’s Response:

- (i) The Company had obtained an order of court on 30 January 2017 for the Writ to be personally served on Mr Zheng (郑开苏) in China. As China is a country under the Civil Procedure Convention, the usual process for personal service of Court documents would be to make a request through the Court for the documents to be served through: (1) the government of China; (2) the judicial authority of China; and/or (3) a Singapore consular authority at China. This request was made on 13 March 2017 after a translation of the Court documents. Thereafter, the Company has no control over the speed at which the Court documents are served on Mr Zheng in China, and can only check on the progress of this by asking for regular updates from the Court – which has been done at regular intervals since 13 March 2017. In other words, the Company is waiting for notification from the Court that the service of the documents on Mr Zheng (郑开苏) in China has been successful. We have not received such notification to date, despite asking regularly for updates.
- (ii) Mr Zheng (郑开苏) selectively answered phone calls. He called to inform when the auction was successfully carried out on 10 February 2017, which was announced on 22 Feb 2017. Our legal representative informed us that China is a country under the Civil Procedure Convention, the usual process for personal service of Court documents would be to make a request through a Singapore consular authority at China as explained above.

Query 2 :

The Company disclosed that “Besides the lawsuit filed in the Singapore High Court, the Company has also lodged a report with the Commercial Affairs Department of Singapore (“CAD”) against Mr Zheng (郑开苏) on 24 October 2016.” Please disclose whether the Company has filed a police report in

Quanzhou for the “Fraudulent Loans” announced by the Company. Has the Company filed police reports in Quanzhou against Mr Zheng Kai Su (郑开苏) for the “Fraudulent Loans”? Please provide a status update on this process.

Company’s Response:

Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd (“泉州天宇化纤织造实业有限公司”) Company’s legal representative is Mr Zheng (郑开苏). Without his authorization, Company is not able to file a police report in Quanzhou. The Company didn’t filed police report against Mr Zheng (郑开苏).

Query 3 :

Please disclose whether the Company had taken steps or have any plans to change the legal representative of Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd (泉州天宇化纤织造实业有限公司) and Tianjian Special Polymede Fibre Technology Fujian Co., Ltd (天健特种锦纶科技（福建）有限公司)? If not, please explain why not.

Company’s Response:

As announced on 10 February 2017, Mr He (何志东) was proposed as legal representative for Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd (泉州天宇化纤织造实业有限公司), Tianjian Special Polymede Fibre Technology Fujian Co., Ltd (天健特种锦纶科技（福建）有限公司) and Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司). However, we manage to successfully appoint him to Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) only. Mr He (何志东) was blocked from appointment in Tianyu and Tianjian.

Query 4 :

The Company disclosed that “it managed to collect and protect certain evidences, files and accounting records on the unauthorized activities carried out by Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) previous legal representative, Mr Yu Guang (于光) and Mr Zheng (郑开苏). Please disclose if the Company will be taking any legal actions against Mr Yu Guang (于光) and Mr Zheng (郑开苏) for carrying out unauthorized activities in Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司).

Company’s Response:

Mr He (何志东) assumed the legal representative of Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) on 12 April 2017. A police report was filed with the local Public Security Bureau 刑侦部门 on 9 May 2017. The authority is still in the process of investigation.

Query 5 :

In relation to Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司), when were the land and factory buildings seized under the Court Orders and when did Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) cease operations?

Company’s Response:

The land and factory buildings were seized by banks from Fujian since October 2016 in government asset registration department under Court Orders. No transaction is allowed on the land and factory assets. Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) cease production on May 2017.

Query 6 :

The Company disclosed that all machineries and equipment of Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司) were seized to be disposed by the Labour Court (仲裁院). “Meanwhile, suppliers are also applying for court judgement to seize Zhongda’s fixed assets”. Please:

- (i) Quantify the value of these machineries and equipment filed in the respective Courts;
- (ii) Disclose the dates for the Court Hearing for the suppliers' seizure of Qingdao Zhongda's fixed assets;
- (iii) Disclose the date where the Labour Court (仲裁院) has set aside to dispose of the machineries and equipment of Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司).

Company's Response:

The labour court seized the machineries and equipment for the partial payment preferentially to the employees on November 2017. It is only the court who has the rights to appoint a valuation agent to value the machine and equipment. We haven't received valuation information from court yet. In addition, we have requested our auditor for confirmation.

Query 7 :

Please disclose the names of each of the supplier referred to in Question 6 above who have filed legal suits against Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司), the dates of the lawsuits were filed and the Court Hearing date, what they have supplied the Company, the amount sought from the Company and the status of their claims.

Company's Response:

There are more than dozen of suppliers sued for various amounts at different times. We will ask the lawyer help tablet and summarize it after Chinese New Year holiday.

Query 8 :

The Company disclosed that "Zhongda's factory buildings and land have been seized by Fujian Court (福建省法院) through applications made by some banks in Fujian Province and have been seized by some banks in Fujian Province for they have been collateralized for RMB800 million loan made to Tianyu whose legal representative is Mr Zheng." (郑开苏). Please:

- (i) Provide details of the RMB800 million loan.
- (ii) Disclose whether the loan was recorded in the Financial Statements of the Company.

Company's Response:

- (i) Details as follows:-

Name of bank	Amount in million
厦门光大	40
厦门兴业	60
泉州建行	435
泉州中信	110
泉州银行	30
泉州交行	130
泉州浦发	50
	855

- (ii) No

Query 9 :

The Company disclosed that “The land of the new factory was previously mortgaged to Qingdao Huangdao District Industrial and Commercial Bank (青岛市黄岛区工商银行) for a RMB 120 million loan. This land was also seized by Court orders by applications made by China Everbright Bank Co., Ltd (中国光大银行) and China Construction Bank (中国建设银行). Qingdao Intermediate People's Court (青岛市中级法院) has ordered Zhongda to pay Qingdao Huangdao District Industrial and Commercial Bank for the loan.” Please elaborate on the following:

- (i) Has the RMB 120 million loan been repaid to Qingdao Huangdao District Industrial and Commercial Bank (青岛市黄岛区工商银行) and what is the amount outstanding under the loan?
- (ii) If the loan from the Qingdao Huangdao District Industrial and Commercial Bank (青岛市黄岛区工商银行) is still outstanding, please explain how the security for the RMB 120 million was capable of being “seized by Court orders by applications made by China Everbright Bank Co., Ltd (中国光大银行) and China Construction Bank (中国建设银行)”? Please quantify the loan amounts payable to each of Qingdao Huangdao District Industrial and Commercial Bank (青岛市黄岛区工商银行), China Everbright Bank Co., Ltd (中国光大银行) and China Construction Bank (中国建设银行);
- (iii) When were the loans from Qingdao Huangdao District Industrial and Commercial Bank (青岛市黄岛区工商银行), China Everbright Bank Co., Ltd (中国光大银行) and China Construction Bank (中国建设银行) extended to the Group, to which subsidiary was the loan extended to?
- (iv) Whether these loans were recorded in the Financial Statements of China Sky and were the loans and interest expenses recorded in the Company's books;
- (v) To quantify the market value of the land referred to in question 9 (ii) and to state whether the land is the same plot that is referred to in question 8 above.
- (vi) Please provide details on the dates of the Court Hearings for the lawsuits filed by the 3 Bank creditors. Who was the Company's representative in the Court Hearings and who are the other defendants in the Court Hearings. Please provide specific details of the lawsuit and to quantify amounts sought. Who are the lawyers and law firms appointed by each of the defendants for the Court Hearing.

Company's Response:

The amount outstanding is RMB 120 millions plus interest and penalty. This loan happened in 2016. The creditors have the rights to seize the assets of the debtor as long as they are not auctioned yet in order to protect their potential rights even though the land had been mortgaged to Qingdao 青岛工商银行.

Query 10 :

The Company disclosed that “Xinlong Construction Group (鑫隆建设集团), the company which was appointed for the construction of the new factory, has also sued Zhongda for unpaid fees and loan it made to Zhongda. The hearing has been fixed on 5 February 2018.”

- (i) Please provide details and cost of construction for the new factory. The size and address of the factory, when did this construction commence and what is the stage of construction to-date.
- (ii) Please quantify the amount of unpaid fees and loan from Xinlong Construction Group (青岛市黄岛区工商银行); and
- (iii) Provide an update of the hearing on 5 February 2018.

Company's Response:

- (i) The land cost is RMB 40 million while budgeted construction cost is RMB 150 million. The new land has a size of 133,333.4 square metres and is located East of Zhusong Road, South of No. 6 Hongshiya Road, Qingdao City, Shangdong Province, PRC. The Company had obtained shareholders' approval for the acquisition of new land in 30 November 2011. The construction started two and a half years ago. At present, the factory has only completed land clearance and foundation
- (ii) There are two contractors. The construction cost by Xinlong Construction Group cannot be quantified as it is not completed. We have only received Xinlong Construction Group suing us for RMB 7 million until now.
- (iii) Pending confirmation

Query 11 :

The Company disclosed "A special committee headed by Mr 徐术金 has been set up by the district government of Huangdao". Is Mr 徐术金 an employee of the Company? If so, what is his role and designation? If not, who is he?

Company's Response:

Mr 徐术金 is not an employee of the Company. He is a government officials which head the Labour Department. He has influenced on labour court and employment disputes. He is the head of the committee.

Query 12 :

The Company disclosed that "The Board also recognizes that substantial assets of Tianyu and Tianjian have been auctioned off or collateralised due to the Fraudulent Loans committed by Mr Zheng." (郑开苏) Please quantify the total amount of asset auctioned off or collateralized. To quantify the amount of write-off of assets in the financial statements of Quanzhou Tianyu Chemical Fiber & Weaving Industry Co., Ltd (泉州天宇化纤织造实业有限公司), Tianjian Special Polymede Fibre Technology Fujian Co., Ltd (天健特种锦纶科技(福建)有限公司) and Qingdao Zhongda Chemical Fibre Company Limited (青岛中达化纤有限公司).

Company's Response:

All the assets of the three companies were either auctioned, mortgaged or seized. The total combine assets amounted to RMB 1.9 billion.

Since 30 October 2017, the labour court arbitration has ruled that all Zhongda employees cease employment. Nobody work for the company anymore.

As we are approaching the Chinese New Year holiday, the Company will update more information when available at a later stage.

BY ORDER OF THE BOARD

He Zhidong
Chairman

12 February 2018