

FURTHER INFORMATION ON ANNUAL REPORT 2015

The Board of Directors (“**Board**”) of China Hongcheng Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the announcement relating to the Company’s Annual Report for the financial year ended 30 June 2015 (“Annual Report 2015”) and would like to provide additional information as follows:-

SGX-ST’s question 1

We refer to page 30 of the Company’s annual report. We note that the External Auditors had highlighted observations which were noted during their course of audit. Please provide an update on the steps taken by the Audit Committee and the Company.

Company’s response

As the internal control weaknesses mainly arose from human errors and the complexity and large variety and categories of products and semi-products, the Management has been taking active steps in reviewing and updating its internal control procedures and stepping up its ERP implementation to tackle the internal control weaknesses.

In addition, the Management has instructed its Internal Auditors to expand their internal audit scope and depth on these areas. The Internal Auditors has included these areas as priority for the next quarter internal audit for the 3 months ending 31 December 2015. The Management will continue to monitor and improve its internal control procedures based on its Internal Auditors’ recommendations with the AC’s comments upon the completion of the next quarter’s internal audit work.

SGX-ST’s question 2

We refer to page 41 of the Company’s annual report on the ‘Independent Auditors’ Report’. The auditors highlighted that there was a “lack of documentation and incomplete accounting records”. Please provide reasons and background as to why this is so.

Company’s response

As stated in the Company’s announcement dated 24 November 2015, the reasons and background on the lack of documentation and incomplete accounting records as provided by the Management are as follows:-

“During the financial year ended 30 June 2015 (“FY2015”), the overall PRC textile industry continued to be weak and the Group recorded significant losses. The market conditions have also resulted in a high turnover of staff/workers in the Group. As most of the Group’s stock costing records maintained in the production departments are prepared manually, the high turnover of staff/workers had led to errors and the loss of certain costing and other production records resulting in difficulties for the Group’s finance team to account for the Group’s inventories and cost of sales accurately and on a timely basis.

Due to the complexity and large variety and categories of products and semi-products and the lack of manpower resources as mentioned above, the Management was not able to reconstruct the costing and other production records and consequently the Group was unable to the fulfil its financial year end reporting deadlines.

In view of the above, the Management could only depend on internal periodical stock take results to estimate and adjust the inventories and cost of sales to ensure that they are recorded using the weighted average basis for each reporting period.

As such, the cost of inventories sold amounted to RMB151,852,000 was due to the lack of related costing documentation and incomplete records as mentioned above. As a result, the independent auditors were not able to carry out the necessary audit procedures to satisfy themselves as to the validity and appropriateness of these amounts that have been included in cost of sales in the consolidated statement of comprehensive income for FY2015. Consequently, they were also unable to determine any adjustments to these amounts.

In order to address the issue, as the inventories level is now at a historically low, it will allow the Group to automate and improve on its inventories recording system. Since the commencement of FY2016, the Group has been focusing on stepping up its inventories ERP implementation especially the costing recording system. This will involve an increased in automation and reduce the reliance on manual recording so that the stock costing records can be prepared more accurately and on a timely basis.”

SGX-ST's question 3(a)

For the Exchange's consideration under Rule 1303(3)(c) and noting the Independent Auditor's findings on "Going concern", please provide the following information:-

(a) the Board's opinion if the Company will be able to operate as going concern and basis for the Board's view.

Company's response

The Board is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements for the next twelve months ending 30 June 2016 and to pay its debts as and when they fall due based on the following representations from the Management:

- (i) The Management is monitoring the Group's cash flows closely to ensure that the Group has adequate working capital. The Group has maintained good relationships with the banks. As a usual practice, the Group will arrange with the banks to reschedule the bank borrowings when they fall due. The Management is therefore confident that the existing bank borrowings can be renewed as and when they fall due so that the operations of the Group will not be affected.
- (ii) The Management is confident that the Group will be able to operate as going concern as there is an improvement in the profit margins of the Group's products from the period 1 July 2015 up to the date of the annual report due to the decrease in raw material costs.

BY ORDER OF THE BOARD

Liu Ming
Executive Chairman

2 December 2015