CHINA HONGCHENG HOLDINGS LIMITED
(Incorporated in Bermuda)

FURTHER INFORMATION ON THE COMPANY'S FY2015 FINANCIAL STATEMENTS ANNOUNCEMENT

The Board of Directors ("**Board**") of China Hongcheng Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the FY2015 financial statements announcement on 29 August 2015 ("**Results Announcement**") and wishes to provide further information as follows:

SGX-ST's questions:-

1. ***We note that 'Cost of sales' has increased by 18% from RMB397.112 million to RMB468.464 million and note the Company's explanation that it was due to increase in sales volume of Group's products. Please provide the following information:-***

(a) Provide breakdown of 'Cost of sales'.

Company's answer to question 1(a):-

Cost of sales breakdown:

	FY2015 RMB'000	FY2014 RMB'000
Direct materials	332,390	237,643
Direct labours	42,920	48,291
Overheads	93,154	111,178
	468,464	397,112

The direct materials costs increased to RMB332.4 million in FY2015 because the Group utilised higher-priced cotton purchased previously to produce the Group's products in FY2015.

However, overheads decreased to RMB93.2 million in FY2015 because the Company has successfully implemented its cost saving plan to reduce energy costs and other overhead costs by adjusting its production schedules and facilities.

(b) Explain why 'Cost of sales' increase when 'Revenue' has decreased by 23.2%.

Company's answer to question 1(b):-

Since April 2014, the PRC government had reformed the domestic cotton policy by granting government subsidies to the cotton farmers instead of collecting cotton from them. The price of the newly collected cotton in late 2014 decreased and this exerted downward pressure on the selling prices of cotton textile products produced by domestic textile manufacturers. The Company expected the downward trend to continue for some time in the future and had decided to utilise its higher-priced cottons which were purchased in previous periods before purchasing new cottons for production so as to minimize the Company's inventory levels. This resulted in an 18% increase in cost of sales.

Due to the decrease in new cotton prices, weak market demand and keen market competition, the selling prices of the Company decreased by about 23% in FY2015. As a consequence, the Company incurreda gross loss. The Company expected this to be a temporary situation. In order to keep the relationship with the Company's long-term customers and maintain the existing factory workers, the Company had little choice but to sell its products at lower prices which resulted in the decrease in the Company's revenue.

The Company's inventories are currently maintained at low levels. At the appropriate time upon securing orders, the Company will purchase lower-priced cotton from the current market to reduce production costs and at the same time reduce the Company's working capital needs and the related bank borrowings finance costs.

2. We note that 'Selling and distribution expenses' has increased by 18.2% from RMB4.785 million to RMB5.656 million. Please provide the following information:-

(a) Provide breakdown of 'Selling and distribution expenses' and explain material expenses.

Company's answer to question 2(a):-

Selling expenses breakdown:

	FY2015 RMB'000	FY2014 RMB'000
Transportation	2,973	1,582
Staff costs	1,991	2,370
Others	691	832
	5,656	4,784

Transportation expenses increasd to RMB3.0 million in FY2015 mainly due to the increase in sales volume of the Company's export sales despite of the decrease in the product selling prices.

The staff costs decreased to RMB2.0 million mainly due to the decrease in sales commission paid to the marketing staffs in line with the decrease in the Company's sales.

(b) Explain why did 'Selling and distribution expenses' increase by 18.2% when 'Revenue' has decreased by 23.2%.

Company's answer to question 2(b):-

The overall revenue decreased in FY2015 but selling and distribution expenses increased mainly due to the increase in the more expensive transportation expenses which were in line with the increase in sales volume of the Group's export sales.

3. We refer to page 3 of the Results Announcement and note that 'Accrued liabilities, other payables and deposits received' has increased from RMB94.485 million to RMB105.910 million.

(a) Please provide breakdown of 'Accrued liabilities, other payables and deposits received' and explain material expenses.

<u>Company's answer to question 3(a):-</u>

Accrued liabilities, other payables and deposits received breakdown:

	At 30 June 2015 RMB'000	At 30 June 2014 RMB'000
Accrued liabilities:		
-social insurances	32,983	23,798
-trade union funds	10,974	10,156
-staff education fees	5,380	5,430
-new staff training fees	2,226	2,226
-accrued salaries	13,239	12,412
-other accrued expenses	3,437	2,288
	68,239	56,310
Advances from customers	13,603	15,501
VAT and other tax payables	10,292	9,684
Due to a third party – construction expenditure	2,955	2,955
Other payables	10,821	10,035
	105,910	94,485

Social insurance is a PRC statutory requirement for the purchase of insurances of the Company's staffs to recover them from losses of working abilities, temporarily losses of working positions and losses arising from personal health problems.

Trade union fund is a PRC statutory requirement for the setting up of a fund to support the activities held by the trade union. The Company's trade union fund was adequate for such purposes and there was no material movement during FY2015.

Accrued salaries were mainly salaries and fees accrued for the Directors and key management of the Company in accordance to the Chairman and Key Management Personnel's remuneration packages approved by the Board of the Company.

Advance from customers were sales deposits received from customers for procuring goods from the Company. Advance from customers decreased in line with the decline in sales during FY2015.

Other payables comprised mainly working deposits placed by the staffs when they joined the Company which are refundable upon termination of their employments and the deposits amount would be adjusted in line with the general price inflation or other similar domestic companies in the industry.

(b) We note the Company's explanation that the increase in 'Accrued liabilities, other payables and deposits received' is due to a longer credit period obtained by the Group for staff insurances payable. Please provide the following information:-

(i) How much does staff insurances amount to and what is the number of staff covered by the insurance.

Company's answer to question 3(b)(i):-

The staff insurances payable referred to the social insurances payable were RMB33.0 million as at 30 June 2015 and the number of staffs covered was 1,969.

(ii) Explain why staff insurances increase noting that on page 11 of the Results Announcement the Company stated that the number of workers was reduced.

Company's answer to question 3(b)(ii):-

The accumulative payable balance of the staff insurances payable included in the'Accrued liabilities, other payables and deposits received' increased because the Company has negotiated with the related authority to allow the Company to delay the settlement as the Company was loss making in the previous years. As a result, although the current year's provision decreased, the accumulative payable balance still increased.

4. We refer to page 3 of the Results Announcement. We note in view of the Group's continued operating losses, management has carried out an assessment to determine whether the Company's investment in subsidiaries is impaired and consequently an allowance for impairment loss was made, amounting to approximately RMB134,153,000 (FY2014: RMB110,073,000) to write down the carrying amount of the investment to its estimated recoverable amount as at the statement of financial position date. Please provide the following information:-

(a) Basis for the calculation of the allowance for impairment loss of RMB 134,153,000.

Company's answer to question 4(a):-

Details of the subsidiaries:

Name of subsidiaries:	Principal activities/Country of incorporation and operations	FY2015 RMB'000	FY2014 RMB'000	FY2015 %	FY2014 %
Direct subsidiary of the Company					
Willgreat Group Limited("Willgreat")	Investment holding BVI	244,226	244,226	100	100
Indirect subsidiaries of the Company					
Shandong Hongcheng Co., Ltd	Manufacturing and sales of textile products PRC			100	100
Zouping Yika Hometex Co., Ltd	Manufacturing and sales of textile products PRC			100	100
Harvest Vantage Ltd	Dormant BVI			100	100

In view of the Group's continued operating losses, management has carried out an assessment as shown in the below table to determine whether the Company's investment in subsidiaries is impaired, and consequently an allowance for impairment loss was made, amounting to approximately RMB134,153,000 (FY2014: RMB110,073,000) to write down the carrying amount of the investment to its estimated recoverable amount as at the statement of financial position date.

Allowance for impairment loss:

	RMB'000
Original cost of investment in Willgreat	244,266
Less: the Group's net assets at 30 June 2015	(88,167)
Amount impaired, ***not more than*** the original cost of investment in Willgreat	244,266

Movement in the allowance for impairment loss during FY2015:

	FY2015 RMB'000 Unaudited	FY2014 RMB'000 Audited
Balance at beginning of year	110,073	35,908
Allowance during the year	134,153	74,165
Balance at end of year	244,226	110,073

(b) What is the original value of the investment in the subsidiaries before impairment.

Company's answer to question 4(b):-

	At 30 June 2015 RMB'000 Unaudited	At 30 June 2014 RMB'000 Audited
Unquoted equity shares, at original cost	244,226	244,226
Less: Allowance for impairment loss	(244,226)	(110,073)
	-	134,153

(c) Whether the revised valuation which resulted in the impairment loss of RMB 134,153,000 was supported by independent valuation and if not, please provide Audit Committee's views if the Company should obtain an independent valuation to support the reasonableness of the significant impairment.

Company's answer to question 4(c):-

There is no specific requirement for an independent valuation to be carried out in accordance with the International Financial Reporting Standards (IFRS). Consistent with prior years, no such independent valuation was carried out and management had assessed whether the Company's investment in subsidiaries is impaired as at the balance sheet date. The recoverable amount of the investment is determined based on the higher of fair value less cost to sale or value in use (discounted cash flows) of the relevant cash generating units.

Accordingly, the revised valuation was not supported by any independent valuation and was based on management's estimation which had taken into consideration the Group's 5-years continuous losses and the significant negative net asset value as at the financial position date. As the Company is an OEM textile manufacturer which does not have any valuable intangible assets such as brand names or logo, management expects that such estimation will not be materially affected, should an independent valuation be carried out.

Notwithstanding this, the Audit Committee is of the opinion that an independent valuation is necessary for the impairment loss of RMB134 million in respect of the investment in subsidiaries. Management will arrange for an independent valuation to be carried out, which will be completed before the issuance of its financial statements for the financial year ended 30 June 2015.

BY ORDER OF THE BOARD

Liu Ming
Executive Chairman

7 September 2015