CHINA HONGCHENG HOLDINGS LIMITED
(Incorporated in Bermuda)

MANAGEMENT'S RESPONSE TO AUDITORS' DISCLAIMER OPINION

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 Disclaimer of Opinion by the independent auditors on the financial statements for the financial year ended 30 June 2015 released to the Singapore Exchange Securities Trading Limited ("SGX-ST") on 18 November 2015 ("**Announcement**"). Pursuant to the SGX-ST's request, the Management wishes to provide its response to the Disclaimer of Opinion as follows:-

Cost of Sales

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 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.

Going Concern Assumption

The reason for the significant loss in FY2015 was mainly due to the Group's high production costs and the decline in selling prices of the Group's products caused by the intense price competition in the textile industry. As the market conditions continued to be weak, the Group has been incurring losses since FY2011 to FY2015. Consequently, these factors led to the Group having net current liabilities and a deficit in shareholders' funds at the end of FY2015.

To try to improve the Group's performance, the Management continues to focus on its operational efficiencies and to expand its local and overseas markets. The Group has also maintained good relationships with the banks and hence, the Management is confident that the existing bank borrowings can be maintained and/or renewed as and when they fall due so as to manage the Group's negative working capital position. Nevertheless, the Management has been monitoring the Group's cash flows closely to ensure that the Group will be able to operate within the level of its current financial resources for the next twelve months ending FY2016 and to meet its obligations as and when they fall due.

BY ORDER OF THE BOARD

Liu Ming
Executive Chairman

24 November 2015