

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.

(中国高纤控股有限公司)

("Company")

(Company Registration No. 200817812K)

(Incorporated in Singapore on 9 September 2008)

FRAMEWORK SUPPLY CHAIN COOPERATION AGREEMENT BETWEEN HUAXIANG (CHINA) PREMIUM FIBER CO., LTD AND ZHEJIANG MATERIALS INDUSTRY CHEMICAL GROUP CO., LTD

1. INTRODUCTION

The Board of Directors (the "**Board**") of China Gaoxian Fibre Fabric Holdings Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") is pleased to announce that 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 Industry Chemical Group**"), an independent third party, for a period of 3 years, commencing from 1 December 2016 to 31 December 2019.

2. INFORMATION OF ZHEJIANG MATERIALS INDUSTRY CHEMICAL GROUP

Zhejiang Materials Industry Chemical Group was incorporated in 2005, with authorised share capital of RMB 100 million and is a subsidiary of Zhejiang Materials Industry Group Co., Ltd, a state owned company listed on The Shanghai Stock Exchange.

In 2016, Zhejiang Materials Industry Group Co., Ltd was ranked 359th amongst the Fortune 500 enterprises and for the 8th consecutive year, it was ranked as the top enterprise in Zhejiang province.

The principal activities of Zhejiang Materials Industry Group Co., Ltd are investment holding, provision of management consultation services, car sales and leasing, e-commerce, second-hand car trading and services, domestic trade, import and export businesses, supply chain management, logistic and warehousing services, real estate development, leasing, equipment leasing, second-hand housing transactions, property services, pension and health care services (excluding medical services).

The principal activities of Zhejiang Materials Industry Chemical Group are wholesale of medical devices, chemical products (excluding dangerous goods), medical equipment, rubber and products, fertilizer, wood and related products, textile raw materials and related products, primary edible agricultural products, coal, metal materials, building materials, precious metals, electromechanical products and equipment (excluding cars), hardware and electrical equipment, daily necessities, stationery, fuel oil, warehousing services, consultation services and import and export businesses.

3. SALIENT TERMS OF THE AGREEMENT

- (a) Zhejiang Materials Industry Chemical Group will be responsible for the purchase and supply of key raw materials to Huaxiang (China). The finished goods produced by Huaxiang (China) will be sold back to Zhejiang Materials Industry Chemical Group based on the actual raw materials prices used in production plus a pre-determined fixed processing fee of the respective product produced.

- (b) Zhejiang Materials Industry Chemical Group will also act as the sole distributor of Huaxiang (China)'s finished products to Huaxiang (China)'s customers ("**Customers**").
- (c) Huaxiang (China) will be leasing part of its warehousing facilities to Zhejiang Materials Industry Chemical Group to store the latter's raw materials and finished goods.
- (d) Zhejiang Materials Industry Chemical Group (i) has the rights to advise Huaxiang (China) on change of product mix and/or production volume to meet market demand, (ii) can request Huaxiang (China) to replace finished products which do not meet the quality and standard specifications required by the Customers, (iii) is required to maintain sufficient levels of raw materials to ensure uninterrupted production, and (iv) can purchase necessary insurance for its raw materials and finished goods stored in Huaxiang (China)'s warehouse.
- (e) The Group is required to provide a guarantee deposit of RMB 30 million and pledged some of its equipment to Zhejiang Materials Industry Chemical Group. Zhejiang Materials Industry Chemical Group has the right to offset its losses against the guarantee deposit or dispose of the Group's assets pledged with Zhejiang Materials Industry Chemical Group to recover the losses incurred due to Huaxiang (China)'s negligence in manufacturing and caused destroy of raw materials.
- (f) Upon sale of finished goods to Customers, Huaxiang (China) will be responsible and liable for defective product liability compensation.

4. RATIONALE FOR ENTERING INTO THE AGREEMENT

The Board believes that with full production capacity in place and the continuing cost cutting measures applied to achieve operational efficiency, this arrangement with Zhejiang Materials Industry Chemical Group will ease cash flow requirement of the Group. The Group will not need to allocate its cash to purchase raw materials from its suppliers, which is currently on a "cash on demand" basis. The Group currently purchases and holds 5 days' worth of raw materials and the new arrangement will allow management to draw raw materials from Zhejiang Materials Industry Chemical Group under a just-in-time inventory model.

In addition, such arrangement also provides certainty in the timing of receipt of funds from Zhejiang Materials Industry Chemical Group rather than exposure to credit risks from the Customers with various credit terms. The arrangement with Zhejiang Materials Industry Chemical Group will also improve the Group's market reputation.

The Board is of the view that this arrangement is in the interest of and of commercial benefits to the Group.

5. FINANCIAL EFFECTS OF THE ARRANGEMENT

The entry into the Agreement is not expected to have any material effect on the earnings per share and net tangible assets per share of the Company for the financial year ending 31 December 2016.

6. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or Controlling Shareholders of the Company has any interest, directly or indirectly, in relation to the above arrangement / Agreement.

BY ORDER OF THE BOARD

Tham Wan Loong, Jerome
Executive Director
19 December 2016