

## **UPDATE ANNOUNCEMENT**

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China Sky Chemical Fibre Co., Ltd (the “**Company**” together with its subsidiaries, collectively the “**Group**”) wishes to announce the following update:

### Legal Proceedings filed in Singapore

The Company refers to the previous announcements made by the Company on 25 October 2016 and 6 January 2017 in relation to the lawsuit filed in the High Court of Singapore against Mr Zheng Kai Su (“**Mr Zheng**”) on 24 October 2016 for the fraudulent and/or unauthorised use of the Group’s funds and/or assets as collateral for securing loans in the sum of approximately RMB 1,073,000,000.

The Group had since filed an application to serve the lawsuit documents on Mr Zheng in China on 13 March 2017 and has been requesting for updates from the Court on the status of the service of the documents. As at 19 September 2017, the Group had been informed that the Ministry of Foreign Affairs Beijing Mission has no updates on the status of the service of the documents and that the Group would be kept informed of any updates received.

### Update on Chinese Subsidiaries and Actions Taken in China

Before the change of Qingdao Zhongda Chemical Fibre Company Ltd’s (“**青島中達化纖有限公司**”)(“**Zhongda**”) legal representative which took place on 12 April 2017, Zhongda’s bank account has already been frozen. Due to shortage in cashflow, Zhongda has stopped production since May 2017. Zhongda has not paid its employees’ wages, provident funds and social security funds for the past 3 years which amounted to approximately RMB 20 million. As a consequence, some employees staged protest, obstructed Zhongda’s main entrance and filed complaints to the government authorities. Zhongda has been facing tremendous pressure from its employees, management staff, social and government authorities. At the same time, Zhongda needs support from some unpaid employees to protect its documents, accounting records, secure the factory premises, upkeep surrounding environment and power supply, etc.

The Group has engaged legal advisors and accounting firms and other institutions in China to assist in its investigation and to obtain document and witness evidences. The Group had filed a report with the local Public Security Bureau 刑侦部門 hoping it would help to bring those responsible to justice. The Group is now awaiting for the progress on this matter. However as the Company is incorporated in Cayman Island but listed on the Singapore Stock Exchange, the case became complicated under the China legal framework as it poised jurisdiction issues and uncertainty. Hence, it is expected that the investigation process by the authority would take a much longer time to complete.

In addition, the Group has to deal with various external interferences and hindrances as Mr Zheng and his associates have been asserting their influences to obstruct the investigation process. Meanwhile, the Group is co-ordinating and co-operating with the investigation by the local government authorities. In order to appease the employees whom had been extremely displeased with the prolonged non-payment and also to maintain social and workers' stability in light of the 19<sup>th</sup> Congress of the Communist Party of China which is taking place in October this year, the Group has agreed for the employees of Zhongda to jointly disposed of Zhongda’s production equipment which have not been

mortgaged or seized and the proceeds obtained shall be designated solely for purpose of part payment to the employees.

The Group legal advisors had tried to reach Mr Zheng to verify and confirm if he has been convicted or declared a bankrupt but was unable to receive any response from Mr Zheng.

Zhongda is currently facing the following lawsuits:

1. The guarantee by Zhongda for the fraudulent loan amount of RMB 790 million;
2. Qingdao Huangdao District Industrial & Commercial Bank (青島市黃島區工商銀行) (the “**Bank**”) had filed a petition against Zhongda for a loan of approximately RMB 120 million which was granted in 2016, of which RMB 50 million was due. The hearing has been fixed on 10 October 2017. Zhongda shall strive to reach some form of settlement arrangement with the Bank.
3. Zhongda has also been sued by a dozen suppliers for various amount of unpaid outstanding balance. It is also attempting to negotiate settlement with these suppliers.
4. Zhongda has been sued for a loan of RMB 10 million with high interest.

All the above lawsuits took place before the change of Zhongda’s legal representative. The Group’s legal advisors and accounting firms are currently dealing with the lawsuits with main objective in protecting the Group’s interest.

To resolve the above issues, the Group will require a lot of efforts, time, contacts and financial resources.

#### Proposed Change of Legal Representatives in Chinese Subsidiaries

The Company refers to the previous announcements made by the Company on 10 February 2017 and 11 September 2017 in relation to the proposed change of legal representatives of the Company’s indirect wholly-owned subsidiaries in China.

As there are many unresolved issues surrounding 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”), it is impossible to find anyone willing to take up this position. Hence, the proposed change has not taken effect.

As for Zhongda, the Company is still awaiting for the Chinese authority to approve the change of legal representative to Mr He Zhiping, brother of Mr He Zhidong.

#### Reverse Take-Over Proposal (“**RTO**”)

The Company is also looking into restructuring via RTO. The potential projects include:

1. Beijing Huairou District HAPPY VALLEY new rural urbanization projects, as well as retirement living, health pension and tourism comprehensive development projects.
2. Fujian eco-agricultural tourism industry chain comprehensive development, food processing, "Tang Baoxiang" and other brands of vegetarian food franchise, breakfast van to be operated by military families which the government is strongly supporting, and sociality & consumer data operation project.

The Company will keep shareholders informed of any further developments and will make such further announcements as and when appropriate.

He Zhidong  
Chairman

9 October 2017