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)

UNQUALIFIED OPINION BY THE INDEPENDENT AUDITOR WITH AN EMPHASIS OF MATTER ON THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2016

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors of China Gaoxian Fibre Fabric Holdings Ltd. (the "**Company**", or together with its subsidiaries, the "**Group**") wishes to announce that the Company's Independent Auditor, Foo Kon Tan LLP, has issued an unqualified opinion with an emphasis of matter and other matter in their report ("**Independent Auditor's Report**") on the consolidated financial statements of the Group for the financial year ended 31 December 2016. A copy of the Independent Auditor's Report is attached as Appendix I.

BY ORDER OF THE BOARD

Tham Wan Loong, Jerome
Executive Director

1 June 2017

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of China Gaoxian Fibre Fabric Holdings Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and financial position of the Company as at 31 December 2016, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred losses for the financial year of RMB 375.1 million (2015 - RMB 787.0 million) for the financial year ended 31 December 2016. As of that date, the Group and the Company reported deficiencies in net current assets of RMB 2.1 billion and RMB 91.0 million (2015 – deficiency in net current assets of RMB 1.48 billion and RMB 87.9 million). The Company also reported a deficiency in net assets of RMB 91.0 million (2015 – RMB 88.0 million) as at the balance sheet date. These events or conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries (Cont'd)

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Impairment of property, plant and equipment	As at 31 December 2016, the Group's property, plant and equipment amounted to RMB 1.35 billion and it represents the largest category of assets on the Group's statement of financial position. During the current financial year, management recognised an additional impairment loss on property, plant and equipment amounting to RMB 112.0 million in the consolidated statement of comprehensive income. The cumulative impairment losses recognised on the Group's property, plant and equipment as at 31 December 2016 amounted to approximately RMB 803.7 million. The Group has been incurring operating losses since its resumption of trading on 18 September 2013. The textile industry in PRC continues to be impacted by the slowdown of the PRC economy. The macro environment remains challenging due to intense competition within the industry and rising production costs. The production facilities located at the Group's other production facilities in Zhejiang Huagang Polyester Industrial Co., Ltd and Fujian New Huawei Fibre Dyeing Co., Ltd remain shut since FY 2014 and were partially leased to third parties.	We have identified the impairment of the Group's property, plant and equipment is significant to our audit. Our audit procedures included, among others, obtaining an understanding of and challenging management's assumptions in determining the recoverable amounts of the Group's property, plant and equipment. The recoverable amounts of the Group's property, plant and equipment were determined either based on (i) value-in-use methodology or (ii) fair value less costs to sell, estimated using the depreciated replacement cost method. Our procedures to address the key audit matter include:- 1. Evaluated the reasonableness of the Group's judgements as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests of the Group's property, plant and equipment; 2. Critically assessed the appointed valuer's assumptions and estimates used to determine the recoverable amounts of the Group's property, plant and equipment and consequently any impairment losses recognised;

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries (Cont'd)

Key Audit Matters (Cont'd)

Key Audit Matter	**Risk**	**Our responses and work performed**
Impairment of property, plant and equipment (Cont'd)	FRS 36 – *Impairment of Assets* requires management to assess whether there has been a change in the estimates used to determine the recoverable amounts or whether there is an indication that the impairment losses recognised previously no longer exists or decreases. Management engaged an independent valuer to determine the recoverable amounts of the Group's three cash generating units in which the various assets belong. The recoverable amounts are determined based on either (i) value-in-use methodology or (ii) fair value less cost to sell, estimated using the depreciated replacement cost method. The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied, such as the weighted average cost of capital (discount rate), price fluctuations in raw materials and finished goods, price indices used to estimate the replacement costs of like assets, useful lives and assets utilisation scale factors; i.e. a small change in the assumptions can have a significant impact to the valuation.	Our procedures to address the key audit matter include:- 3. Evaluated the qualifications and competency of the business valuer. We read the terms of engagement of the valuer to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; 4. Engaged an auditor's expert to assist us in determining the appropriateness of the discount rate used; 5. Evaluated whether the auditor's expert has the necessary competencies, capabilities and objectivity for the auditor's purposes; 6. Ran a range of sensitivity analysis where a reasonably possible change in assumptions could have a significant impact to the valuation; and 7. Considered the adequacy of the descriptions in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Impairment assessment on financial assets	As at 31 December 2016, the Group's loans and receivables as disclosed in Note 11 in the consolidated financial statements amounted to approximately RMB 128.2 million. They comprised mainly of (i) trade receivables of RMB 31.1 million, (ii) other receivable from a third party for non-performing loans previously acquired of RMB 10.1 million, (iii) deposits of RMB 37.9 million and (iv) non-trade advances extended to third parties of RMB 34.7 million respectively. The economic slowdown in PRC created a higher inherent risk relating to credit default. Management monitors and assesses the Group's credit risk, and where required, adjusts the level of allowance for impairment losses, which requires management to make significant judgement regarding the expected future financial conditions and the ability of future receipts from the debtors.	We have identified the recoverability of the Group's trade and other receivables as a key audit matter. The focus of our work involved auditing the Group's credit analyses and associated impairment assessments of trade and other receivables that were either in default or significantly overdue as at 31 December 2016. Our procedures to address the key audit matter includes:- 1. Assessed the Group's processes and controls relating to the monitoring of trade receivables and considered ageing to identify collection risks; 2. Sent confirmations on a sampling basis and reviewed for collectability by way of obtaining evidence of subsequent receipts from the trade receivables; 3. Discussed with management on the recoverability of the long outstanding debts and evaluated management's assumptions and estimates used to determine the trade receivable impairment amount through detailed analyses of ageing of receivables, assessment of material overdue individual trade receivables and where applicable, review of customers' payment history and correspondences between the Group and the customers; and 4. Assessed the adequacy of the Group's disclosures on the trade receivables and the related risks such as credit risk in the financial statements.

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries (Cont'd)

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Presentation of revenue	On 1 December 2016, the Group entered into a framework supply chain cooperation agreement (the "Cooperation Agreement") with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials") for a period of 3 years, commencing from 1 December 2016 to 31 December 2019. Under the Cooperation Agreement, Zhejiang Materials will act as the sole distribution agent of the Group's finished goods. The Group will be entitled to (i) a fee computed based on the actual raw material prices used in its production plus a pre-determined fixed processing fee, which will be revised quarterly and (ii) a profit share arising from the sale of the finished goods by Zhejiang Materials to its end customers after deducting certain related costs. Arrangements that involve multiple parties within a distribution chain providing goods or services to customers require the Group within that chain to exercise significant judgement in evaluating whether it is a principal (presenting revenue gross) or an agent (presenting revenue net) in the transaction. The determination is based on an evaluation of whether the Group has the substantial risks and rewards of ownership under the terms of the arrangement.	We evaluated whether the Group's accounting policy for the presentation of revenue under the Cooperation Agreement complied with the requirements of FRSs. 1. Obtained and read the Cooperation Agreement and discussed with management to obtain an understanding on the nature of the arrangement; 2. Conducted interviews with key management personnel from the Group and Zhejiang Materials to understand the roles and responsibilities of the respective parties in respect of the Cooperation Agreement; and 3. Evaluated the risks and responsibilities undertaken by the Group in accordance with FRS 18 – *Revenue*; and 4. Assessed and validated the adequacy and appropriateness of the related disclosures made in the notes to the financial statements.

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries (Cont'd)

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report
To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Kong Chih Hsiang Raymond.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore,
1 June 2017

2 Going concern

The Group incurred losses for the financial year of RMB 375.1 million (2015 - RMB 787.0 million) for the financial year ended 31 December 2016. At that date, the Group and the Company reported deficiencies in net current assets of RMB 2.1 billion and RMB 91.0 million (2015 – deficiency in net current assets of RMB 1.48 billion and RMB 87.9 million). The Company also reported a deficiency in net assets of RMB 91.0 million (2015 – RMB 88.0 million) as at the balance sheet date. Furthermore, on 2 March 2016, the Company announced that the Singapore Exchange Securities Trading Limited (the "SGX-ST") has notified the Company that pursuant to Rule 1311 (1), the Company would be placed on the Watch-List for 36 months from 3 March 2016, failing which the SGX-ST may either remove the Company from the official list of the SGX-ST (the "Official List") or suspend trading of the Company with a view to remove the Company from the Official List. These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern.

The matters set out in the paragraphs above indicate the existence of a material uncertainty which may affect the validity of the going concern assumption on which the accompanying financial statements are prepared.

The directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements as the directors believe that:

(a) Huaxiang (China) Premium Fibre Co., Ltd. ("Huaxiang China") has been included in the list of local enterprises shortlisted by the People's Government of Huzhou City in FY2016 to receive financial assistance, including but not limited to the restructuring of existing loans from its principal bankers. This is part of the government wide initiatives to assist local enterprises who are facing financial difficulties. Following this, the Group was able to obtain fresh borrowings amounting to RMB 1,240.1 million and repaid approximately RMB 1,167.9 million during FY 2016. Furthermore, the major financial institutions have restructured the Group's bills payables into short-term borrowings, which bear lower interest rates. As at 31 December 2016, the Group's bills payable has reduced to RMB 130.6 million from RMB 487.5 million a year ago include in trade and other payables (Note 18);

(b) Huaxiang China has resumed full production capacity on 15 April 2016 and production level has improved to full capacity since Q2 FY 2016. The commencement of the Framework Supply Chain Cooperation Agreement with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials") with effect from 1 December 2016 will allow management to draw raw materials directly from Zhejiang Materials under a "Just-in-Time" inventory model. The Group will no longer need to utilise its "free cash" to purchase raw materials for production, which is currently on a cash on delivery basis. The surplus cash can be used to repay the banks' and third parties' borrowings, thereby reducing the high interest expenses;

(c) One of the shareholders continues to undertake and provide the necessary financial support to the Group and the Company so that the Group and the Company are able to pay its debts as and when they fall due. In the event of any shortfall in working capital requirements for the next twelve months, management believes that the Group and the Company will have the ability to obtain further short-term financing from financial and non-financial institutions and third parties (collectively known as the "Lenders") since these loans will continue to be secured by guarantees from that shareholder. In FY2016, the Group was able to obtain fresh funding amounting to RMB 574.0 million from non-financial institutions to settle the Group's borrowings of RMB 696.0 million owing to these non-financial institutions. The loans due to these lenders amounted to RMB 1,824.5 million as at 31 December 2016 (2015 – RMB 2,109.1 million) and were secured by personal guarantees from that shareholder.

The financial statements have been prepared on a going concern basis, which contemplate the realisation of assets and the satisfaction of liabilities in the normal course of business. The viability of the Group and the Company's operations to continue as a going concern for the next twelve months after the end of the reporting period is dependent on (i) continual support from the local government, financial and non-financial institutions, (ii) the ability to maintain production level in Huaxiang China's production plant and generate required cash flows; (iii) the ability of one of the shareholders in providing continuing financial support to the Group and the Company as and when the liabilities fall due. As described above, management is of the view that they have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future.

If for any reason the Group is unable to continue as a going concern, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as "current assets" and "current liabilities" respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.