CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.
(中国高纤控股有限公司)
(Company Registration No. 200817812K)
(Incorporated in Singapore on 9 September 2008)

FURTHER INFORMATION ON THE COMPANY'S ANNOUNCEMENT IN RESPECT OF THE PROPOSED DISPOSAL OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF HUAXIANG CHINA GAOXIAN INTERNATIONAL HOLDINGS LIMITED

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*Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Company's announcement in respect of the Proposed Disposal of the entire issued and paid-up share capital of Huaxiang China Gaoxian International Holdings Limited which was released to the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 21 August 2018 ("**Proposed Disposal Announcement**").*

The Board of Directors (the "**Board**") of China Gaoxian Fibre Fabric Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's Proposed Disposal Announcement and wishes to provide further information as follows:-

SGX-ST's questions:-

1. We refer to the Company's 21 August 2018 announcement on Proposed Disposal of entire group of Huaxiang China Gaoxian International Holdings Limited (Huaxiang). The Company announced that upon completion of the Proposed Disposal, it will continue to hold the Huagang Group. Please:

(i) Explain why the Group is selling Huaxiang and keeping Huagang. Please elaborate which of the Huaxiang Group or Huagang Group is performing better. Please provide basis and details, including but not limited to details such as capacity utilisation, cost of investment and ROI for each of the Huaxiang and Huagang Group;

(ii) Disclose how much has been invested/loaned by the Company to Huaxiang to-date. Please disclose specific use of proceeds injected into Huaxiang to-date;

(iii) Disclose what the specific assets of Huaxiang are, what was the cost of investment in these assets, how much has been impaired to-date and the current book value of these assets;

(iv) Disclose what the specific assets of Huagang are, what was the cost of investment in these assets, how much has been impaired to-date and the current book value of these assets;

(v) Elaborate on the difference between the business of Huaxiang and Huagang;

(vi) To quantify how much loans is outstanding in the books of each of Huaxiang and Huagang; and

(vii) To disclose if all the loans from financial & non-financial institutions relating to Huaxiang will be impaired.

Company's response:-

(i) Prior to the Huaxiang Project, the Company carried out its operations through the Huagang Group, manufacturing polyester yarns through the melt-spinning process.

Pursuant to the Huaxiang Project, the Group acquired new production facilities since 2011, which utilised the direct melt-spinning technology.

The Group continued operating both the Huagang Group and Huaxiang Hong Kong and its subsidiaries ("**Huaxiang Group**") until August 2014 when the production facilities of the Remaining Business was leased out to an independent third party, Huzhou Wuxing Huali Warp Knitting Factory ("**Huzhou Huali**"). Huzhou Huali took over the Remaining Business until December 2017 when the lease expired. The lease was not renewed because of the Group's intention for the Huagang Project. Zhejiang Huagang will not produce the products produced by Huzhou Huali as Huzhou Huali has been unprofitable for the last three (3) years. Hence the requirement to upgrade Zhejiang Huagang's existing production facilities and ancillary machinery and equipment for the production of new FDY products and new POY products.

Financial details, including the capacity utilisation, cost of investment and return of investment, of each of the Huaxiang Group and Huagang Group are as follows:-

As at 31 December 2017	Huaxiang Group RMB'million	Zhejiang Huagang [c] RMB'million
Capacity utilisation	95%	20%[a]
Balance Sheet as at 31 December 2017		
Investment in subsidiaries by the Company	**1,240.56**	**682.41**
Total Borrowings	(1,174.00)	(80.83)
Net current (liabilities)/assets	(2,003.20)	304.14
Net (liabilities)/assets	(968.97)	469.99
Accumulated losses	(1,899.74)	(212.42)
Income Statement for FY2017		
Interest expense	(134.57)	(4.38)
Amortisation expense	(5.04)	(0.27)
Depreciation expense	(152.14)	(7.01)
Net (loss)/profit for the year	**(145.76)**	**4.15 [b]**
Return on investment ("ROI")	**(0.12)**	**0.34**

Notes:-

(a) Capacity utilisation of Huzhou Huali

(b) Excluding non-recurring other income comprising reversal of allowance for doubtful debts and reversal of impairment loss on investment in subsidiary of RMB 29.99 million and RMB 200.00 million respectively.

(c) Zhejiang Huagang is the only operating entity of the Huagang Group as at 31 December 2017 and date of this announcement.

Going concern of the Huaxiang Group

As at 31 December 2017, the Huaxiang Group's current liabilities exceeded current assets by RMB 2.00 billion with net liabilities of RMB 968.97 million. In addition, the Huaxiang Group's high debt gearing may lead to high cashflow risk as 55% of the Huaxiang Group's borrowings of RMB 651.00 million are payable within one (1) year. For the financial year ended 31 December 2017("**FY2017**"), the Huaxiang Group incurred a loss after tax of RMB 145.76 million and recorded an accumulated loss of RMB 1.90 billion. These factors indicate the existence of a material uncertainty which may cast significant doubt on the Huaxiang Group's ability to continue as a going concern.

Financial position of the Zhejiang Huagang

As at 31 December 2017, Zhejiang Huagang's current assets exceeded current liabilities by RMB 304.14 million with net assets of RMB 469.99 million. For FY2017, Zhejiang Huagang reported an adjusted profit after tax of RMB 4.15 million (excluding non-recurring other income comprising reversal of allowance for doubtful debts and reversal of impairment loss on investment in subsidiary of RMB 29.99 million and RMB 200.00 million respectively). No indication of going concern was noted for Zhejiang Huagang as at 31 December 2017.

Based on the above reasons, the Group has decided to dispose of the Huaxiang Group and retain Zhejiang Huagang. Zhejiang Huagang is the only operating entity of the Huagang Group as at 31 December 2017 and date of this announcement.

(ii) Huaxiang Group's total investment and the utilisation thereof as at 31 December 2017 are as follows:-

As at 31 December 2017	Huaxiang Group RMB'billion
Huaxiang Group's total investment:	
Investment in Huaxiang Group by the Company	1.24
Net intercompany advances to Huaxiang Group by the Company	0.79
Borrowings secured by Huaxiang Group	1.20
Miscellaneous debtors	0.41
Less: Operation loss up to FY2017 (Accumulated Losses)	(0.97)
Total	**2.67**
Huaxiang Group's use of investment funds:	
Purchase of property, plant and equipment	2.34
Purchase of land use rights prepayments	0.17
Investment property (Construction work-in-progress)	0.16
Total	**2.67**

(iii) Huaxiang Group's list of assets, costs of investment, impairment and book value of these assets as at 31 December 2017 are as follows:-

Huaxiang Group As at 31 December 2017	Investment Cost RMB'billion	Accumulated Impairments RMB'billion	Accumulated Depreciation RMB'billion	Net Book Value RMB'billion
Property, plant and equipment	2.34	(0.57)	(0.63)	**1.14**
Land use rights prepayments	0.17	-	-	**0.17**
Investment properties (Construction work-in-progress)	0.16	-	(0.04)	**0.12**
Total	**2.67**	**(0.57)**	**(0.67)**	**1.43**

(iv) The list of assets of Huagang, costs of investment, impairment and book value of these assets are as follows:-

Zhejiang Huagang As at 31 December 2017	Investment Cost RMB'million	Accumulated Impairments RMB'million	Accumulated Depreciation RMB'million	Net Book Value RMB'million
Property, plant and equipment	218.89	(25.09)	(140.49)	**53.31**
Land use rights prepayments	13.55	-	(3.77)	**9.78**
Total	**232.44**	**(25.09)**	**(144.26)**	**63.09**

(v) The Huaxiang Group and Huagang Group make use of different raw materials and have different markets for the products which they produce and sell.

The Huaxiang Group is involved in the production of polyester chips and premium differentiated fine polyester yarn which uses raw materials such as Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG), as compared to the business of the Huagang Group which uses different raw materials such as black or recycled Polyethylene terephthalate (PET) chips for the production of various specifications of premium differentiated fine polyester yarn, warp knit fabric and chemical fibre materials.

The products from the Huaxiang Group are sold to general fabric manufacturers whereas those from the Huagang Group are mainly sold to fabric manufacturers who produce environmentally friendly fabric. In addition, the Huagang Group also produces Fire-Retardant POY which are sold to manufacturers of fire resistant fabric.

(vi) Huaxiang Group's and Huagang Group's total borrowings as at 31 December 2017, comprising borrowings from both financial institutions and non-financial institutions, are as follows:-

Borrowers As at 31 December 2017	Huaxiang Group RMB'million	Zhejiang Huagang [(a)] RMB'million
Financial institutions borrowings		
Huaxiang Group - Changle Bole	155.00	
Huaxiang Group - Fujian New Huawei	513.00	-
Huaxiang Group - Huaxiang China	480.15	-
Huagang Group – Zhejiang Huagang	-	80.83
Sub-total	**1,148.15**	**80.83**
Non-financial institutions borrowings		
Huaxiang Group - Changle Bole	15.85	-
Huaxiang Group - Fujian New Huawei	10.00	-
Sub-total	**(25.85)**	**-**
Total borrowings	**(1,174.00)**	**(80.83)**

Note:-
(a) Zhejiang Huagang is the only operating entity of the Huagang Group as at 31 December 2017 and date of this announcement.

(vii) Assuming that the Proposed Disposal had been effected on 31 December 2017, Huaxiang Group's adjusted total borrowings will be RMB 1.58 billion. Please see reply on 1(vi) above and the Guangda Loan as announced on 21 August 2018 for more details.

2. The Company disclosed that Huaxiang Property is wholly-owned by Huaxiang and is engaged in the business of real estate development and property management. Please list Huaxiang Property's properties to-date, provide details of the properties and disclose the status of development and sales of these properties.

Company's response:-

Huaxiang Property was incorporated in 2014 to own the properties for the Huaxiang Group. Huaxiang Property owns one showroom and two dormitories, all of which are for the Huaxiang Project. Huaxiang Property does not carry out property development. The showroom showcases the products of the Huaxiang Project and the dormitories house the personnel of the Huaxiang Group. Neither the showroom nor dormitories are leased to any entities or parties outside the Group. Details of the showroom and dormitories are as follows:-

As at 31 December 2017	Investment Cost RMB'million	Accumulated Impairments RMB'million	Accumulated Depreciation RMB'million	Net Book Value RMB'million
Block C Unit 9 Lu Cheng Yu Yuan, Feng He Yuan	8.86	-	(1.2)	**7.66**
7-139 Phase 2 Chang Xing Textile commercial centre	2.15	-	(0.2)	**1.95**
Zi Jing Yuan Dormitory	10.96		(1.49)	**9.47**
Total	**21.97**	**-**	**(2.89)**	**19.08**

3. The Company disclosed that the net tangible liability (NTL) of Huaxiang is RMB 968.97 million. Please disclose the NTA/NTL attributable to each of Huaxiang China, Changle Bole, Huaxiang Property and Fujian New Huawei, the subsidiaries of Huaxiang.

Company's response:-

The NTL/Net Tangible Assets ("**NTA**") attributable to each of Huaxiang China, Changle Bole, Huaxiang Property, Fujian New Huawei and Huaxiang Hong Kong, the subsidiaries of the Huaxiang Group, are as follows:-

Huaxiang Group	As at 31 December 2017 RMB'million
Huaxiang China	(472.24)
Changle Bole	70.13
Huaxiang Property	6.91
Fujian New Huawei	(463.69)
Huaxiang Hong Kong	930.43
Consolidation adjustments[(a)]	(1,039.79)
Net liabilities	**(968.97)**

Note:-
(a) Consolidation adjustments comprised consolidation elimination of investment in subsidiaries of RMB 1.24 billion and consolidation elimination of intercompany transactions of RMB 200.06 million.

4. **Noting that the paid-up capital of US$144.5 million and RMB200 million of Huaxiang China and Fujian New Huawei respectively are significant, please disclose what are the major assets of each of Huaxiang China and Fujian New Huawei.**

Company's response:-

The major assets of Huaxiang China and Fujian New Huawei as at 31 December 2017 are as follows:-

As at 31 December 2017	Huaxiang China RMB'million	Fujian New Huawei RMB'million
Paid-up capital	**930.56**	**200.00**
Net liabilities	**(472.24)**	**(463.69)**
Major assets		
Property, plant and equipment (NBV)	1,091.21	28.19
Land use rights prepayments (NBV)	135.34	-
Construction work-in-progress	159.04	-
Investment in subsidiaries	110.00	-
Due from Huaxiang Group	195.92	345.97
Total major assets	**1,691.51**	**374.16**
	78%	**66%**
Total assets	**2,170.58**	**566.68**

5. **In relation to the value of the Sale Shares, please explain how did the NTL of RMB 968.97 million attributable to the Sale Shares arise. Please quantify your response accordingly.**

Company's response:-

The NTL of RMB 968.97 million attributable to the Sale Shares is calculated as follows:-

As at 31 December 2017	Note	Huaxiang Group RMB'million
Paid-up capital	[A]	- [(a)]
Capital reserve	[B]	930.76
Accumulated losses	[C]	(1,899.73)

Net liabilities	[D]=[A]-[B]-[C]	(968.97)
Total assets	[a]	2,131.93
Total liabilities	[b]	(3,100.90)
Net liabilities	**[c]=[a]-[b]**	**(968.97)**

Note:-
(a) Huaxiang Group's consolidated paid-up capital as at 31 December 2017 was RMB 9,000.

6. Please disclose the remaining NAV/NTL of the China Gaoxian Group after the disposal of the Huaxiang group, excluding any gain/loss on the disposal of Huaxiang. Please disclose major components of the remaining assets/liabilities.

Company's response:-

The remaining NTL of the Group after the disposal of the Huaxiang Group, excluding any loss on the disposal of the Huaxiang Group, is RMB 50.95 million. The major components of the remaining assets/liabilities are as follows:-

The Group	As at 31 December 2017 RMB'million
Adjusted total assets	
Property, plant and equipment	53.32
Land use rights prepayments	9.78
Other assets	59.48
Total	**122.58**
Adjusted total liabilities	
Borrowings	(80.83)
Other liabilities	(92.70)
Total	**(173.53)**
Adjusted net liabilities	**(50.95)**

7. The Company disclosed that based on the valuation by the Independent Valuer, the value of the Sale Shares is NIL "as a result of the debt securities and net liability position held by the Sale Subsidiaries." Please quantify the debt securities and net liability position held by the Sale Subsidiaries.

Company's response:-

The total valuation amount of debt securities and net liability position held by the Sale Subsidiaries as at 31 December 2017 based on the Market Valuation Approach, the Income Valuation Approach and the Cost Valuation Approach are negative RMB 0.7 billion, negative RMB 0.5 billion and negative RMB 0.7 billion respectively.

8. The Shareholder and director of the Purchaser is Chen Jiarong. Please:

(i) Disclose the identity of person who introduced Chen Jiarong to the Company;

(ii) Under what circumstances did Chen Jiarong come to know the Company;

(iii) Are there any relationships between Chen Jiarong or his associates with the Company, its directors, substantial shareholders, key management or their respective associates. If so, please disclose.

(iv) Please confirm whether there are any agreements, direct or indirect, written or otherwise, between Chen Jiarong/the Purchaser and Cao Xiangbin & his associates or with anyone else with respect to the acquisition of Huaxiang by the Purchaser. If so, please disclose details.

Company's response:-

(i) Chen Jiarong was introduced by our Executive Director and Chief Executive Officer, Lin Xingdi, through a supplier, Xiamen International trade group Co., Ltd, to the Company.

(ii) Chen Jiarong was introduced during a business event.

(iii) None of the Directors, controlling shareholders or substantial shareholders of the Company has any relationship, direct or indirect, with Chen Jiarong.

(iv) To the best of the Company's knowledge, there is no agreement, direct or indirect, written or otherwise, between Chen Jiarong and Cao Xiangbin and his associates or with anyone else with respect to the Proposed Disposal.

9. It was disclosed that "Chen Jiarong is an independent third party and an entrepreneur who runs multiple businesses including private equity funding, real estate development, manufacturing and trading of chemical business and a research and development centre in developing new textile materials, in particular, Polyphenylene Sulfide fiber ("PPS") ("R&D Centre")". Please:

(i) Disclose the names of these various businesses; and

(ii) Whether Chen Jiarong's existing business is significant in comparison to the Huaxiang's operations.

Company's response:-

(i) Information relating to Chen Jiarong is based on industry knowledge as none of his businesses are publicly listed. To the best of the Company's knowledge, some of Chen Jiarong's key businesses are as follows:-

Company Name	Industry	Paid-up Capital RMB' million	Principal Activities
Haixi Hongjin Chemical Co., Ltd	Mineral Mining	100	Mining of Mirabilite and development, manufacturing and sales of PPS and other chemical fibres
Huitiancheng Group Co., Ltd	Investment, real estate	100	Investment, investment management, consulting , real estate development and construction

(ii) As we are not aware of all of Chen Jiarong's various businesses and since there are no publicly available information, we are unable to ascertain whether Chen Jiarong's existing business is significant in comparison to the Huaxiang Group's operations.

10. In relation to the Intercompany Loans, the Company disclosed that "amounts owing to the Huagang Group by the Sale Subsidiaries is RMB 1,084,555,030 respectively". (i) Please disclose when these significant loans were extended and why did Huagang have to extend these significant loans to the Sale Subsidiaries of Huaxiang. (ii) As these loans will be waived, please disclose the adjusted NAV of Huaxiang taking into the waiver of these liabilities due from the Huaxiang Group. (iii) As these loans were extended in order for Huaxiang to acquire its assets, please provide reasons for the waiver for the repayment of the loan to Huagang by the Sale Subsidiaries.

<u>Company's response:-</u>

(i) As at 31 December 2017 and 30 June 2018, the amounts owing to the Huagang Group by the Sale Subsidiaries are RMB1.13 billion and RMB1.08 billion respectively, details of which are as follows:-

No.	Lender	Borrower	Amounts owing as at 31.12.2017 (RMB'million)	Amounts owing as at 30.06.2018 (RMB'million)
1.	Company	Fujian New Huawei	(160.62)	(160.62)
2.	Guangda	Fujian New Huawei	(7.43)	(7.43)
3.	Guangda	Huaxiang China	(461.73)	(456.38)
4.	Zhejiang Huagang	Huaxiang China	(501.68)	(460.12)
<u>Total (B):</u>			**(1,131.46)**	**(1,084.56)**
Net intercompany loan amount (B) - (A):			**(793.03)**	**(744.06)**

Proceeds from the Company's dual primary listing on the main board of The Korea Exchange in 2011 were injected into the Sale Subsidiaries for the Huaxiang Project in FY2011. The injection was made by way of share capital into Huaxiang Hong Kong as well as loans amounting to RMB160.62 million as at 31 December 2017 and 30 June 2018 to Fujian New Huawei.

In addition, intercompany loans were made by Guangda and Zhejiang Huagang to Fujian New Huawei and Huaxiang China, all between FY2015 to FY2017, for the development of the Huaxiang Project, including the construction of the factory and purchase of production lines, as well as operating expenses for the Huaxiang Project. Funding for these intercompany loans includes amounts loaned from the Guangda Loan Lenders amounting to RMB 407.25 million and RMB 401.20 million as at 31 December 2017 and 30 June 2018 respectively.

Of the RMB 501.68 million intercompany loans from Zhejiang Huagang to Huaxiang China, an amount of approximately RMB 200.00 million relates to the acquisition consideration for Fujian New Huawei by Huaxiang China in FY2017, which is equivalent to the registered capital of Fujian New Huawei.

(ii) The adjusted NTL of Huaxiang Group as at 31 December 2017 and 30 June 2018 were RMB 50.95 million and RMB 51.18 million respectively.

(iii) Please refer to Reply 10(i) above.

11. In paragraph 3.2, it was disclosed that payables amounting to RMB 177.6 million and receivables amounting to RMB436.1 million as at 30 June 2018 due and owing by or to the Huagang Group be assigned to Huaxiang China. Please:

(i) Elaborate how the accounts receivables of Huagang is related to Huaxiang;

(ii) If these trade receivables are adjusted, what would the NAV of Huagang be reduced to?

(iii) Are there any bank borrowings taken up by Huagang for the benefit of Huaxiang in the past? If so, please quantify;

(iv) In respect of bank borrowings taken by Huagang for the benefit of Huaxiang, how much is currently still outstanding? Please disclose loan amounts, status of the loans and disclose the repayment obligations of the outstanding loans; and

(v) Are any of these loans used for the Huaxiang Group included in the RMB1,084,550,303 balance that will be waived?

Company's response:-

(i) Contracts with suppliers and customers (including but not limited to trading companies) were signed on a Group basis by all the relevant companies under the Group including Zhejiang Huagang, Guangda, Huaxiang China and Fujian New Huawei. The accounts receivable and payable of the Huagang Group to be assigned to Huaxiang China arise from the said contracts, which are for the operations of the Huaxiang Group.

(ii) If these trade receivables are adjusted, the NAV of Zhejiang Huagang will be reduced to RMB 164.00 million. Please see reply on 1(i) for more details.

(iii) None. Zhejiang Huagang's total borrowings of RMB 77.70 million as at 30 June 2018 had been drawn down for its requirements of capital expenditures and general working capital prior to the commencement of Huaxiang Project.

(iv) There were no bank borrowings taken up by Zhejiang Huagang for the Huaxiang Group.

(v) There were no bank borrowings taken up by Zhejiang Huagang for the Huaxiang Group.

12. Guangda, part of the Huagang Group owes an aggregate of RMB407.3 million (Guangda Loan) to third party independent non-financial institutions. The loan will be novated Huaxiang China. In relation to the Consideration for the disposal of Huaxiang amounting to RMB203.95 million, please:

(i) Disclose the basis for the Cash Consideration amount of only RMB 10,000,000;

(ii) To disclose how the proceeds of the Guangda Loan have been applied;

(iii) As the Guangda loan is RMB 407.25 million, please explain why RMB 193.95 million is considered as part of the Consideration; and

(iv) What will happen to the balance amount of RMB 213.7 million portion of the Guangda loan.

Company's response:-

(i) The SPA was entered into on a willing seller a willing buyer basis. The Company had proposed a cash consideration of RMB 30.00 million, being the estimated amount required for the Huagang Project. The Purchaser offered RMB 10.00 million after taking into consideration the Huaxiang Group's going concern risk as at 31 December 2017, including but not limited to the total borrowings of RMB 1.17 billion, net current liabilities of RMB 2.00 billion and net liabilities of RMB 968.97 million. Please refer to Reply No. 1(i) above for more details.

(ii) The proceeds of the Guangda Loan have been used to finance the Huaxiang Project.

(iii) RMB 193.95 million is the net sum of the Guangda Loan Novation of RMB 407.25 million and also the assignment of payables of RMB 177.62 million and receivables of RMB 390.91 million owing by or to the Huagang Group to Huaxiang China.

(iv) The entire Guangda Loan of RMB 407.25 million and all and any other amounts outstanding under the Guangda Loan as at (and including) the Completion Date will be novated to Huaxiang China, as part of the Consideration.

13. To quantify the total cost of investments/loans in the Huaxiang and the provisions and impairment made in the Huaxiang Group, classified by financial years.

Company's response:-

Huaxiang Group's total investments and major impairments and losses for FY2015 to FY2017 are as follows:-

Huaxiang Group	As at 31 December 2014 RMB'billion	During the financial year			As at 31 December 2017 RMB'billion
		FY2015 RMB'billion	FY2016 RMB'billion	FY2017 RMB'billion	
Total investment					
Property, plant and equipment	2.13	0.13	0.07	0.01	**2.34**
Land use rights prepayments	0.17	-	-	-	**0.17**
Investment properties (Construction work-in-progress)	0.14	0.02	-	-	**0.16**
Total	**2.44**	**0.15**	**0.07**	**0.01**	**2.67**
Major impairments and losses					
Impairment loss on property, plant and equipment	-	(0.48)	(0.09)	-	**(0.57)**
Amortisation and depreciation	(0.34)	(0.02)	(0.14)	(0.17)	**(0.67)**
Total	**(0.34)**	**(0.50)**	**(0.23)**	**(0.17)**	**(1.24)**
Net book value	**2.1**				**1.43**

14. Please elaborate how a significant loss on disposal of RMB1.78 billion can be incurred over such a short period of time of the newly constructed Huaxiang plant.

Company's response:-

The significant loss of RMB1.78 billion on the Proposed Disposal was incurred over such a short period of time due to the following reasons:-

Project delays

(i) The Huaxiang Project commenced in 2010 and investments for its construction were also made in the same year. The expected duration for the construction was two (2) years. However, the Huaxiang Project was delayed for about four (4) years because of a relocation dispute which caused a delay of one (1) year before construction could commence. Then, in 2011, the Company was suspended until 2013, during which there was a change in management. This resulted in a shortage of funds for the Group as fund raising was impeded during this period. Consequently, it was only in 2014 that a small part of the Huaxiang Project began production and the main polyester spinning and weaving production lines of 8 FDY and 8 POY began its trial production in March/April 2015. The total utilisation rate in 2015 was 60%. The production lines of 4 FDY commenced production in the late first quarter of 2017. The Huaxiang Project took a total of six (6) to seven (7) years instead of the original two (2) years to reach its current production capacity.

Economic reasons

(ii) In addition to the above reasons, the capacity of the polyester filament industry reached a peak during the period from 2009 to 2011 due to the construction of a large number of polyester filament production projects between 2008 and 2010 as a result of the PRC government releasing RMB 4 trillion in 2008 to encourage credit and project investments during the global economic crisis in 2008. From 2012, the large amount of polyester filament production capacity resulted in an oversupply. Competition became intense and the entire industry entered into recession, causing prices to plummet. The competition in the industry remained intense up till 2015/2016 when environmental concerns and domestic supply-side reforms reduced production capacity. In 2017, the industry recovered slightly, but the intense competition earlier had resulted in an oligopolistic market structure with the industry's top six (6) companies accounting for about 50% of the total market production capacity. Specifically in the POY market, the industry giants account for up to 70% of the market share and they benefit from the economies of scale. Consequently, even after the reforms, small and medium sized manufacturers continued to compete in a challenging business environment.

The delays encountered during construction led to an increase in the project construction costs. Additionally, due to (a) the sluggishness of the entire industry; (b) the one-off costs incurred in 2014 for the trial productions and in 2017 to restart the various projects; and (c) the lower gross profit margins in the industry, operating loss during the period between 2014 and 2017 caused by the high debt ratio of the Company eventually resulted in a significant loss of RMB1.78 billion.

15. In relation to the rationale for the proposed disposal, the Company disclosed that "The Proposed Disposal is an opportunity for the Company to divest its loss-making subsidiaries". Please disclose if Huagang is profitable.

Company's response:-

Please refer to Reply 1(i) above where it has been disclosed that for FY2017, the Huagang reported an adjusted profit after tax of RMB 4.15 million (excluding non-recurring other income comprising reversal of allowance for doubtful debts and reversal of impairment loss on investment in subsidiary of RMB 29.99 million and RMB 200.00 million respectively).

As announced on 27 July 2018, the Company intends to expand the Huagang Group through the Huagang Project. Upon completion of the Huagang Project, Zhejiang Huagang is expected to achieve a total estimated Earnings Before Interests, Taxes depreciation and Amortisations (EBITDA) of approximately RMB12.30 million, of which approximately RMB4.80 million will be from its production of FDY products and approximately RMB7.50 million from its production of POY products. The Company will continue to expand Zhejiang Huagang to continue its success in the past.

16. The Company will report a loss on disposal of RMB1.78 billion. If this whole amount was used to impair Fixed Assets/pay off interest expenses in the Company's books while retaining Huaxiang's business operations, will Huaxiang be profitable? Please substantiate your response with quantification.

Company's response:-

Assuming that Huaxiang Group's property, plant and equipment and land use rights prepayments and construction work-in-progress are fully impaired as at 1 January 2017, the Company will report an adjusted net loss of RMB 1.43 billion for FY2017.

Huaxiang Group	FY2017 RMB'billion
Net loss for the year	**(0.15)**
<u>Adjustments:</u>	
Amortisation and depreciation	0.16
Impairment loss on property, plant and equipment	(1.14)
Impairment loss on investment property (construction work-in-progress)	(0.16)
Impairment loss on land use rights prepayments	(0.14)
Adjusted net loss for the year	**(1.43)**

17. As the NTL for Huaxiang of RMB 1.04 billion incurred is significant, disclose the major classes of losses and impairments provided which resulted in the significant NTL. Please quantify your response.

<u>Company's response:-</u>

Adjusted gross loss and major classes of losses and impairments of Huaxiang Group for FY2015 to FY2017 are as follows:-

Huaxiang Group	FY2015 RMB'million	FY2016 RMB'million	FY2017 RMB'million	Total RMB'million
Gross profit	**2.35**	**11.13**	**79.03**	**92.51**
Major impairments and losses				
Impairment loss on property, plant and equipment	(480.56)	(91.16)	-	**(571.72)**
Interest expense	(224.67)	(162.48)	(134.57)	**(521.72)**
Amortisation and depreciation	(30.40)	(130.71)	(157.19)	**(318.30)**
Adjusted gross loss	**(733.28)**	**(373.22)**	**(212.73)**	**(1,319.23)**

18. It was disclosed that "Zhejiang Huagang intends to upgrade its existing production facilities and ancillary machinery and equipment for the production and sale of new FDY products and new POY products due to an increased demand in the PRC and technology readiness for the production of such products ("Huagang Project")". If this is the case that the Company will be expanding Huagang's operational capacity, please explain why the Company is selling Huaxiang and all its new equipment immediately after it has reached full capacity, writing off RMB1.7 billion of losses in the disposal Huaxiang and collecting only RMB10 million in cash proceeds. AC to provide their views on whether this is prejudicial to the interest of the Company and is public shareholders. To provide justification and substantiation for its opinion.

<u>Company's response:-</u>

The Audit Committee ("**AC**"), having considered the rationale and terms of the Proposed Disposal, is of the view that the Proposed Disposal is in the interests of the Company, is on normal commercial terms and is not prejudicial to the interests of the Company and its public shareholders for the following reasons:-

(i) Based on the audited consolidated financial statements for FY2017 and the unaudited consolidated financial statement for 1H2018 of the Huaxiang Group, the Huaxiang Group has suffered net accumulated losses of approximately RMB1.90 billion and RMB1.97 billion respectively. The huge losses are mainly attributable to the high finance costs from the loans granted by various banks and non-financial institutions to the Huaxiang Group for the construction and operation of the Huaxiang Project.

(ii) As advised by the management of the Company ("**Management**"), additional capital investment might be required for the Huaxiang Project to maximize its potential and profitability going forward. Given the current financial status of the Company, it is difficult to obtain funding at favourable terms for the Huaxiang Group. Continual funding from the financial institutions and non-financial institutions would further increase the debt liabilities of the Company.

(iii) The Management has assured the AC on the Group's ability to continue as a going concern in the past quarterly results announcements based on the following assumptions:-

(a) the continual support from the local government, financial and non-financial institutions;

(b) the ability to generate sufficient cash flow to cover finance and operation costs; and

(c) the personal guarantee provided by one of the shareholders of the Company if the debt liabilities fall due.

Nevertheless, any changes to the assumptions above pursuant to external factors (for example, the lack of support from the local government or a surge in finance costs pursuant to the change in fiscal and monetary policy in the PRC) may affect the Group's ability to continue as a going concern.

(iv) Apart from the foregoing, the Company has been placed on the Watch-List for thirty six (36) months from 3 March 2016 pursuant to Rule 1311 (1) of the Listing Manual, and failing to exit from the Watch-List by 2 March 2019 may trigger SGX to remove the Company from the official list of the SGX-ST or suspend the trading of the Company. The removal of the Company from the official list might be prejudicial to the interests of its shareholders. The Company has taken active steps to meet the exit criteria of the Watch-List since then. Subject to the approval of the shareholders of the Company, the Proposed Disposal represents a preliminary yet major step taken by the Company to exit from the Watch-List.

(v) From a macro perspective, the market conditions in the PRC remain challenging in view of the looming trade disputes between the PRC and The United States of America and the impending global tightening monetary policy. Management expects that the PRC's economy will remain sluggish in the foreseeable future and that the finance costs of the Huaxiang Group may further increase in the event that the PRC shifts towards a tighter monetary policy in future.

(vi) The AC and the Board have considered various options to revive the Company. Among the various offers received by the Company, the Purchaser's offer is considered to be in the best interests of the Company. Most of the offers received involved a nil cash consideration to the Company. However, the Purchaser had offered to not only take over the debt liabilities of the Huaxiang Group but also pay a cash consideration of RMB10.00 million to the Company. The cash proceeds would be used by the Company as capital investment for the Huagang Project and general working capital purpose.

(vii) In view of the above financial factors and for practical reasons, the AC believes that the Group's losses are unlikely to turn into profit in the foreseeable future if the Huaxiang Group continues to remain in the Group. In addition, the Company's opportunity cost is high as it could have been earned by investing the similar fund in the Huaxiang Project into a different investment with equal risk.

(viii) In contrast with the Huaxiang Project, the Huagang Project requires relatively lesser capital to upgrade its existing production plant and machinery for its production based on the projections made by Management. The products to be produced from the Huagang Project are mainly sold to fabric manufactures who produce: (a) environmental friendly fabric; and (b) fire resistant fabric, pursuant to the increased demand in the PRC and technology readiness. This is a niche market where the Management believes the Company can generate a stable income.

(ix) The Proposed Disposal will substantially reduce the Group's finance liabilities, improve its gearing and secure funds to be deployed for the expansion of the Remaining Business or the Huagang Project and undertake new investment opportunities that may arise in the future which will create higher valuer to its shareholders.

19. It was disclosed that "the Proposed Disposal will allow the Company to focus the Group's resources on the Remaining Business ….in response to the increased demand in the PRC and technology readiness for the production of new FDY and POY products". If the demand for production of new FDY and POY products is increasing, why is the Company selling Huaxiang? Does Huaxiang have more advanced technology in the production of FDY and POY products? When were the technology for Huaxiang and Huagang installed respectively?

Company's response:-

Please refer to Reply 1(i) above.

BY ORDER OF THE BOARD
Tham Wan Loong, Jerome
Executive Director
3 September 2018