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)

FURTHER INFORMATION ON THE COMPANY'S THIRD QUARTER RESULTS ANNOUNCEMENT DATED 14 NOVEMBER 2014

---

*Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Company's Third Quarter Results for the financial period ended 30 September 2014 which was released to the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on14 November 2014 ("**3QFY2014 Results Announcement**").*

The Board of Directors ("**Board**") of China Gaoxian Fibre Fabric Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's 3QFY12014Results Announcement and wishes to provide further information as follows:-

SGX-ST's questions:

(1) In paragraph 8 of the Company's 3Q2014 Results Announcement ("Announcement"), the Company stated in the Announcement that "The decrease in inventories was mainly due to inventory clearance to prepare for the leasing out of the production facilities at HG (Zhejiang Huagang Polyester Industrial Co., Ltd) and NHW (Fujian New Huawei Fibre Dyeing Co., Ltd)." Please provide details on:-

(i) How the inventories were cleared; and

Company's answer to question(1)(i):-

The inventory of the Company's subsidiary, Zhejiang Huagang Polyester Industrial Co., Ltd ("HG"), has mostly been cleared during 2Q2014. The inventory clearance in 3Q2014 was mainly from the Company's other subsidiary, Fujian New Huawei Fibre Dyeing Co., Ltd ("NHW"). After the completion of negotiations with Fujian Yunfeng Textile Co., Ltd for rental of the premises of NHW, the Company's Management decided to dispose its inventories at a 30% discount based on the estimated market value as at 31 July 2014.

(ii) The revenue contribution arising from the inventory clearance.

Company's answer to question (1)(ii):-

The revenue contribution from NHW's inventory clearance is as follows:

Items	Quantity (tonnes)	Estimated Market Price (RMB'000)	Selling Price after discount (RMB'000)
Warp Knit Fabric; Polyester yarn etc	1,719	21,018	14,713

(2) In paragraph 8 of the Company's Announcement, it was stated that "Bills and Other receivables increased to RMB309.6 million from RMB156.8 million mainly due to VAT receivables related to domestic machines purchased for the Huaxiang Project and receivables from Huarong Finance Asset Management Co., Ltd ("Huarong") amounting to RMB80.7 million." Please provide details on:-

(i) The nature of the receivables from Huarong; and
(ii) When will this amount be paid to the Company.

Company's answer to questions (2)(i) and 2(ii):-

Please refer to the Company's announcement dated 7 September 2014.

(3) In paragraph 10 of the Company's Announcement, it was announced that "the Group has decided to take steps to suspend its own production operations at NHW and HG, and lease out each of HG and NHW's existing production facilities to Huali Warp Knitting Factory (吴兴区埭溪华利经编厂) ("Huali") and Fujian Yunfeng Textile Co., Ltd (福建云丰纺织有限公司) ("Yunfeng") respectively in return for monthly rental payments". Please provide details on:-

(i) How the rental payments were determined;

Company's answer to questions (3)(i):-

As previously announced, China's textile industry is experiencing a downturn and this has resulted in sustained losses in HG and NHW. Under current market conditions, the Company's Management forecasts that other enterprises which have similar production facilities like HG and NHW, will continue to suffer losses and such production facilities may become obsolete.

In order to minimise losses, the Company's Management decided to lease out its facilities at HG and NHW. By leasing out its facilities at HG and NHW, it also allows the Group to focus its energy and capital on the Huaxiang project.

The lessees are also aware that they will face similar risks in their business. Should there be no upgrades to the facilities and an increase in the varieties of products, the lessees might also suffer losses. Hence, the agreed rental amount was determined after many rounds of discussion with the lessees before a mutual agreement was reached.

After the lease payment, HG's lessee also purchased other production equipment so as to develop a more diverse range of products. However, as far as the Company is aware, both lessees are currently making losses.

(ii) The space occupied and rental rates per square foot; and

Company's answer to questions (3)(iii):-

The total area rented out in HG is 6,700 square meters and NHW is 16,000 square meters. This translates into a rental rate per square meter of RMB7.46 and RMB12.50 respectively. However, the Company did not charge the rental income based on the space being leased out. The Company did not charge rental income based on space being leased out because it was looking for a lessee that would be interested to take over the existing machinery and use it on a short term basis. A rental of just factory space alone would therefore not be advantageous for the Company as it would have to remove the machinery and store it at its own cost or write it off totally.

(iii) How these rental rates compare to the market rates.

Company's answer to questions (3)(iv):-

There are no comparable market rates as this is an uncommon situation.

(4) In paragraph 10 of the Company's Announcement, it was announced that "Both Huali and Yunfeng are independent third party manufacturers of textile and other products which are the customers of the Group and which have expressed interest to lease the Group's production facilities as part of their strategy to explore upstream production. Huali's business operations include wholesale/retail of textile, chemical fibre products, lace fabric, net cloth and shoe fibre, while the business operations of Yunfeng include wholesale/retail of textile, chemical fibre products, wrap knitting cloth and nylon fabrics."

(i) Please provide details on how is it in the interest of the Company for its customers Huali and Yunfeng, who are in the same business as the Company, to go into upstream production;

Company's answer to questions (4)(i):-

Given the Company's current financial situation, the short term strategy is to minimise further losses by leasing out the premises of HG and NHW to third parties. This will provide an annual income of RMB3 million to these two subsidiaries.

(ii) Will the customers become a competition to the Company and thus affect future purchases from the Company if they go into upstream production; and

Company's answer to questions (4)(ii):-

The customers are not likely to become the Company's competitors. The business of both customers are of a very small scale. For example, HG's lessee, Huali Warp Knitting Factory ("Huali"), has only 30 employees and NHW's lessee, Fujian Yunfeng Textile Co., Ltd ("Yunfeng") has only 100 employees.

Furthermore, the Huaxiang project will have a different and diverse range of products compared to the products that Huali and Yunfeng can produce. As such, they will not be in competition with the Company.

(iii) Are Huali and Yunfeng major customers of the Company?

Company's answer to questions (4)(iii):-

Huali and Yunfeng are not major customers of the Company.

Huali was once a customer of HG, but there were no sales transacted with Huali during 2014,

The revenue from Yunfeng was approximately RMB3.9 milion during 2014, which only accounted for approximately 7% of NHW's total revenue.

(5) In paragraph 10 of the Company's Announcement, it was announced that "To assist Huali in commencing its operations at HG's production facilities, HG has further agreed to extend an interest-free, 12 months secured working capital loan of RMB3.5 million to Huali" and "NHW has also agreed to extend an interest-free, 12-month secured working capital loan of RMB20.0 million to Yunfeng to assist Yunfeng in commencing its operations at NHW's production facilities… approximately RMB14.7 million has been used by Yunfeng to purchase NHW's existing inventory stocks". Please provide details on:-

(i) How are the loans in the ordinary course of business of the Company since Company is operating with a negative working capital; and

Company's answer to questions (5)(i):-

This was agreed upon after numerous negotiations between the lessees and the Company. As answered in the question 4(ii) above, the business of both lessees are of a very small scale. If there is not enough capital to support them, they would not be able to rent or to continue with their business operations. Given this, the Company will not be able to lease out the premises. Therefore, even with negative working capital, the Company still had to provide the working capital loan based on a restricted use basis to the lessees, which will be repaid on time as per the terms of the loan agreement.

(ii) Why is the Company extending an interest free loan of RMB14.7 mil for an annual leasing income of only RMB0.6 mil and the lease is only for 3 years.

Company's answer to questions (5)(ii):-

After conducting a financial analysis, NHW's lessee requires a loan of approximately RMB14.7 million and HG's lessee requires a loan of approximately RMB3.5 million. NHW's annual lease income is RMB2.4 million and HG's annual lease income is RMB0.6 million. The current agreements states that the leases are only for 3 years as agreed by both parties, with an option to extend. Should there be an improvement in the fabric business, the agreement also allows the Company to terminate the lease and use the premises on its own. The reason for the Company extending an interest free loan is answered in question 5(i).

BY ORDER OF THE BOARD

Tham Wan Loong, Jerome
Executive Director
29 December 2014