China Fibretech

China Fibretech Ltd.

2016

Annual Report

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CORPORATE PROFILE

Based in Shishi City in the Fujian Province, PRC, China Fibretech Ltd. (the “Company”) was principally engaged in the provision of dyeing and post-processing treatment services for cotton, polyester and mixed knitted fabrics.

In April 2017, the Board of Directors of the Company announced that the operation of its wholly owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd (the “Subsidiary”) had to be shut down due to non-compliance of sewage treatment regulation and sewage disposal without treatment made by its sewage treatment service provider, Shishi City Haitian Environmental Engineering Co., Ltd. (“Haitian”).

Due to non-compliance of environmental protection and sewage treatment regulation in Shishi by Haitian, Haitian was penalised by the local authority and output of sewage from all dyeing companies in the Wubao Industrial Zone was restricted and closely monitored by the relevant authorities. Therefore, the capacity of sewage treatment service provided to the Subsidiary was reduced to 400 tonnes per day, far below the breakeven position of the Subsidiary’s operation. Hence, Management decided to shut down the operation of its Subsidiary in order to contain losses.

The Company had decided not to pursue any action against Shishi City Haitian Environmental Engineering Co., Ltd since the new control standard criteria was determined by the Environmental Authority. Shishi City Haitian Environmental Engineering Co., Ltd had since then rectified and improved all necessary procedures and standard to meet the new benchmark set.

The Company’s subsidiary has resumed its production on 1st week of August 2017 after it has met the Environmental Authority criteria on the pollution control.

The factory has fully restored all its production lines and total production capacity is 18,000 tonnes. Current utilisation is estimated to be at 20%. The reason for such low utilisation rate was due to reducing order secured in view of poor economic outlook and stiffer competition.

The reason being that the director was only available and physically presence there on 21st November 2017 to ensure that production has indeed been resumed while the Annual Report has already printed and circulated on 13th November 2017.

In the meantime, the Group is in the midst of streamlining its operations consolidating its resources amidst challenging market conditions. With a new Board in place, the Group is charting a new course, exploring opportunities to front new drivers of growth and intensifying efforts in pursuing investment opportunities in the region to develop as a valuable and sustainable core business.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

On behalf of the Board, it is my privilege to deliver the result for year ended 31 December 2016 ("FY2016") and recent developments which we are currently embarking on.

Current Business – Fabrics related

Revenue dipped by more than 60% to RMB25.0 million in FY2016 compared to RMB64.3 million in year ended 31 December 2015 ("FY2015"). This was in view of tight competition in the industry. Gross margin slipped from 18.5% from FY2015 to 11.5% in FY2016 due to a decrease in quantity of fabric processed and average fabric processing fee during the year.

Net losses have been narrowed down to RMB3.6 million vs RMB464.7 million in FY2015. This was due to nil impairment cost provided compared to RMB470.5 million of compensation claimed provided in the corresponding period.

Shareholders equity has been reduced from RMB23.2 million in FY2015 to RMB19.7 million in FY2016 resulted a decreased Net Asset Value of RMB2.19 per share in FY2016 as compared to RMB 2.59 per share in FY2015.

We are facing intense competition in this industry as most of our competitors have adopted pricing strategy to secure orders. In addition the regulatory tighten control of environmental issues in this sector has caused us to shut down operations for checking and re-alignment of our business process to comply with their requirements.

Recent Developments – OB initiatives

As mentioned in the last Annual Report, we have been putting our efforts to forge relationships with China Privately-Owned Enterprises (“POEs”) and State-Owned Enterprises (“SOEs”). We have succeeded to ink our partnership with Sichuan Dingneng Construction (Group) Co., Ltd (“Dingneng”) and China Corporation Investment Group (“CCIG”) and this enables us to be involved in One Belt One Road (“OBOR”) initiatives.

As at this letter, we are currently working on with other SOEs such as Sichuan Provincial Government on cultural tourism related projects. We believe we are able to secure more business opportunities with these SOEs.

In line with the above, we are also working closely with Singapore Exchange Securities Trading Limited (“SGX”) on the lifting up of trading suspension. We have also shared with them our future plan and how this will be beneficial to all stakeholders.

We are pleased to share with you that the regulatory body has granted us in-principle approval on the resumption of trading of shares subject to us delivering and meeting their conditions. We are glad to inform you that we have delivered these requirements imposed and we expect that lifting of suspension is on the line.

Salutations

We wish to thank all our shareholders for their patience and support through this period. We appreciate your support to the new Board and we believe we are on the right track to enhance the shareholders’ value of China Fibretech Ltd.

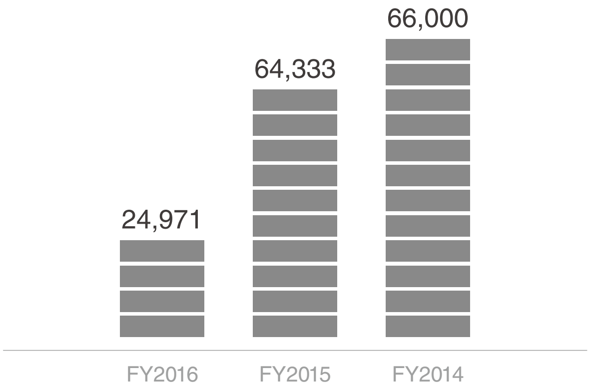
I would like to take this opportunity to thank Dingneng and CCIG in putting their faith in us.

Yours sincerely,

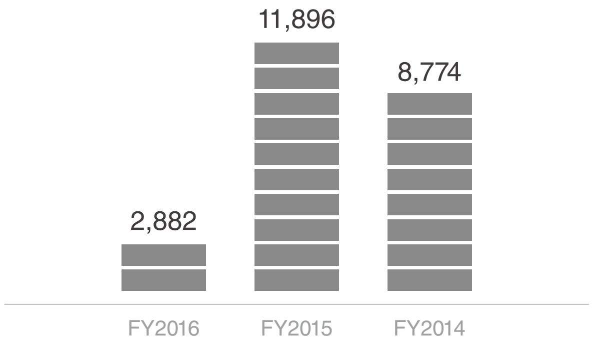
Mr Choo Han Kiat, Eric
Executive Director

GROUP FINANCIAL HIGHLIGHTS

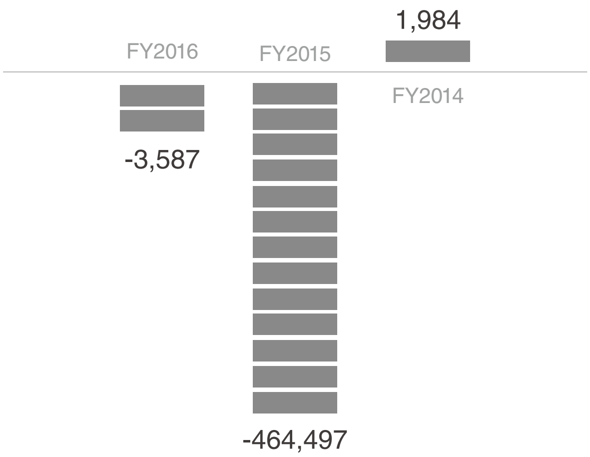
REVENUE
(RMB'000)



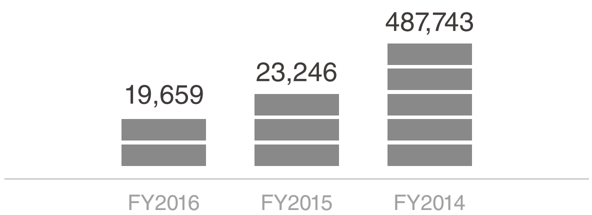
GROSS PROFIT
(RMB'000)



(LOSS)/PROFIT AFTER TAX
(RMB'000)



EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY
(RMB'000)



REVIEW OF FINANCIAL PERFORMANCE

Revenue

The Group recorded revenue of RMB25.0 million for FY2016, a decrease of 61.2% compared to RMB64.3 million for FY2015. The decrease in revenue was mainly due to:

i) Decrease in fabric processed from 8,143 tonnes in FY2015 to 3,328 tonnes in FY2016 as a result of lower demand from our customers during the period;

ii) Decrease in average fabric processing fee from RMB7,901 per tonne in FY2015 to RMB7,504 per tonne in FY2016. Changes in product mix had also contributed to lower average processing fees due to higher proportion of polyester, cotton and spandex processed during the period which commands a lower processing fee.

Gross profit and gross profit margin

Our gross profit decreased from RMB11.9 million in FY2015 to RMB2.9 million in FY2016.

Gross profit margin decreased from 18.5% in FY2015 to 11.5% in FY2016. The decrease in gross profit and gross profit margin is mainly due to decrease in quantity of fabric processed and average fabric processing fee during the year.

Other income

Decrease in other income by 36.9% from RMB3.0 million in FY2015 to RMB1.9 million in FY2016 was attributed by the followings:

- Decrease in interest income by RMB1.0 million due to no rollover of fixed deposits amounting to RMB200 million was made on its maturity dates, 1 May 2016 and 30 June 2016.

- Decrease in gain from disposal of property, plant and equipments by RMB105,000.

Selling and distribution expenses

Selling and distribution expenses decreased by 18.9% from RMB0.7 million in FY2015 to RMB0.6 million in FY2016. The decrease was mainly due to decrease in staff cost by RMB90,000 as a result of reduction in number of staff.

Administrative expenses

Administrative expenses decreased by 12.8% from RMB5.4 million in FY2015 to RMB4.8 million in FY2016. The decrease was mainly due to the followings:

- Decrease in staff cost by RMB344,000 as a result of reduction in number of staff.

- Decrease in director remuneration by RMB217,000 due to resignation of independent director and non-executive director in January 2016 and July 2015 respectively.

- Decrease in entertainment expenses by RMB46,000 due to tightening cost control during the year.

Other operating expenses

Other operating expenses consisted of unallocated overheads, amounting to RMB1.1 million in FY2015 and RMB2.2 million in FY2016, and provision of compensation claim, amounting to RMB470.4 million in FY2015 and RMB nil in FY2016. As explained in our full year financial statement announcement for FY2013, the unallocated overheads refers to reclassification of depreciation expenses for plant and machinery from production cost in accordance to FRS 2 (inventories) note 13 on “Cost of conversion” in order to accurately reflect the Group’s gross profit margin during the period.

The decrease in other operating expenses by 99.5% from RMB471.5 million in FY2015 to RMB2.2 million in FY2016 was attributed by the followings:

- Provision of compensation claim totalling of RMB470.4 million was made in FY2015 as a result of the compensation claim paid to the three claimants on 28 September 2016 in relation to the claims by customers as announced on 29 September 2016 while offsetting the impact of;

- Increase in depreciation charged by RMB1.1 million during the year as a result of lower demand from our customers.

Finance cost

Decrease in finance cost by 13.9% from RMB1.0 million in FY2015 to RMB0.9 million in FY2016 was due to decrease in loan interest expenses as a result of lower interest rate.

Income tax expense

Income tax expenses of RMB26,000 is underprovision of prior year taxation, derived from profit generated by our China subsidiary in Shishi, Fujian Province in FY2015.

Choo Han Kiat, Eric, 45
Executive Director

Academic and professional qualification:
Masters in International Accounting and Finance, London School of Economics

Date of first appointment as director:
5 October 2017

Present Directorships in other listed companies:
Nil

Directorships in other listed companies held over the preceding three years:
Nil

Background and experience:
Mr Eric Choo has more than two decades of experience in the field of finance that include working for Global MNCs like Hewlett Packard and Apple Inc. and also extensive China experiences and network in the area of Financial Management, Merger and Acquisition, and Corporate Finance. With the opening of the Chengdu office in 2014, Eric has since completed contract value of more than RMB 400 million, and with customer's base that include prominent state owned enterprises, government linked investment firms, and China's top private owned enterprises. He is also the Secretary of Gulf Asia Shariah Compliant Association ("Gascia"), a neutral, non-profit, non-governmental and non-religious organization registered with the Registrar of Societies, Singapore, established with the objective to facilitate and promote the awareness and understanding of Islamic finance and encourage Islamic Finance market participants, particularly from the Gulf and Asia.

Wu Xinhua, 63
Non-Executive Non-Independent Director

Academic and professional qualification:
Certificate in Business Administration,
Qinghua University

Date of first appointment as director:
27 July 2007

Date of re-designation as director:
23 October 2017

Length of service:
9 years and 5 months (as at 31 December 2016)

Present Directorships in other listed companies:
Nil

Present Principal Commitments:
Nil

Directorships in other listed companies held over the preceding three years:
Nil

Background and experience:
Mr Wu is the founder of the Group and has been spearheading the expansion and growth of the Group. Mr Wu has over 16 years of experience in the dyeing industry and is responsible for the operations, marketing, public relations, strategic planning and development of new services and markets and overall running of the Group. Mr Wu stepped down from his positions as the Executive Chairman and Chief Executive Officer of the Company on 23 October 2017.

Toh Hai Joo, 45
Non-Executive Independent Director

Academic and professional qualification:
Bachelor Degree in Accountancy,
Nanyang Technological University
Chartered Accountants (CA) –
Institute of Singapore Chartered Accountants

Date of first appointment as director:
1 March 2018

Served on the following Board Committees:
Nominating Committee – Chairman
Audit Committee – Member
Remuneration Committee – Member

Present Directorships in other listed companies:
Nil

Present Principal Commitments:
TR Asia Investment Holdings Pte Ltd – Director
TR Formac Pte Ltd – Director

Directorships in other listed companies held over the preceding three years:
China Great Land Holdings Ltd.

Background and experience:
Mr Toh Hai Joo has 7 years of experience helming the Audit Committee of China Great Land Co. Ltd., on top of being a Remuneration and Nomination Committee member. He has extensive experience in financial control, review of group financial operations and corporate governance and control. He has worked as a Financial Controller for several years in sizeable and reputable multi-national corporations as well as been in the Finance Manager capacity for other listed company in the past. On top of these tenures, he has many years of accounting, audit and corporate tax experience under his belt. In summary, he has many years of erstwhile experience in financial, management and corporate control for listed companies, multinational companies in the capacity of Directors as well as Financial Controller.

Toh Tiong San, 52
Non-Executive Independent Director

Academic and professional qualification:
Honours Degree in Electrical Engineering,
National University of Singapore

Date of first appointment as director:
23 October 2017

Served on the following Board Committees:
Remuneration Committee – Chairman
Nominating Committee – Member
Audit Committee – Member

Present Directorships in other listed companies:
Jackspeed Corporation Limited

Present Principal Commitments:
Nil

Directorships in other listed companies held over the preceding three years:
Nil

Background and experience:
Mr Toh has more than 20 years of experience in private equity, fund management and corporate finance. In 1991, Mr Toh joined DBS Bank Ltd.'s private equity arm and was responsible for deal origination, due diligence, deal structuring, valuation, financial modelling, investment monitoring and divestments. He was also in DBS Bank Ltd.'s capital market services arm where he was involved in merger and acquisition activities, financial engineering and securitisation. In 2000, Mr Toh jointed Temasek Holdings as the Director of Investments, responsible for investment of listed and private companies (including companies that were honoured the Enterprise 50 Awards) in industries spanning food and beverage, services, internet to private education. From 2006 to 2007 and 2009 to 2012, Mr Toh was appointed the Managing Director of Emirates Tarian Asset Management Pte Ltd ("ETAM"), responsible for setting up and running the fund management operations. Mr Toh successfully transformed ETAM into an established boutique fund management outfit before he left in 2012.

Leow Yong Kin, 47
Non-Executive Lead Independent Director

Academic and professional qualification:
Honours Degree in BA Accounting,
University of Lincolnshire & Humberside
Chartered Accountant of Singapore,
Association of Chartered Certified Accountants and Institute of Certified Public Accountants of Singapore

Date of first appointment as director:
5 October 2017

Served on the following Board Committees:
Audit Committee – Chairman
Remuneration Committee – Member
Nominating Committee – Member

Present Directorships in other listed companies:
China Sports International Ltd

Present Principal Commitments:
Falcon Incorporation Pte Ltd – Regional Financial Controller

Directorships in other listed companies held over the preceding three years:
China Taisan Technology Group Holdings Limited
Foreland Fabritech Holdings Ltd
China Star Food Group Limited

Background and experience:
Mr Leow has more than two decades of experience in the field of finance and accounting that include working experience with US and Japan MNCs. He was previously the Chief Financial Office of China Great Land Holdings Ltd. from July 2014 to March 2017. He is currently a Director of AccountsPro Consulting Services Pte Ltd, providing enterprise solutions such as accounting, payroll and HRM software.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Choo Han Kiat, Eric
Executive Director

Mr Wu Xinhua
Non-Executive Non-Independent Director

Mr Leow Yong Kin
Non-Executive Lead Independent Director

Mr Toh Tiong San
Non-Executive Independent Director

Mr Toh Hai Joo
Non-Executive Independent Director

AUDIT COMMITTEE

Mr Leow Yong Kin (Chairman)
Mr Toh Hai Joo
Mr Toh Tiong San

NOMINATING COMMITTEE

Mr Toh Hai Joo (Chairman)
Mr Toh Tiong San
Mr Leow Yong Kin

REMUNERATION COMMITTEE

Mr Toh Tiong San (Chairman)
Mr Toh Hai Joo
Mr Leow Yong Kin

COMPANY SECRETARIES

Mr Lee Wei Hsiung
Ms Wang Shin Lin, Adeline

ASSISTANT COMPANY SECRETARY

Codan Services Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA COMPANY REGISTRATION NUMBER

40381

BERMUDA SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

SINGAPORE SHARE REGISTRAR AND SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Tel: 6536 5355
Fax: 6536 1360

INDEPENDENT AUDITOR

RT LLP
Public Accountants and Chartered Accountants
1 Raffles Please
#17-02 One Raffles Place
Singapore 048616

Partner-in-charge: Mr Su Chun Keat
(Since the financial year ended 31 December 2016)

PRINCIPAL BANKERS

Agricultural Bank of China

China Fibretech Ltd. (the "**Company**") recognises the importance of good corporate governance and the offering of high standards of accountability to shareholders.

This report sets out the Company's corporate governance framework and practices in compliance with the principles and guidelines of the Code of Corporate Governance 2012 (the "**Code**"). Where there have been deviations from the Code, appropriate explanations are provided. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time, to ensure compliance with the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

(A) BOARD MATTERS

BOARD'S CONDUCT OF AFFAIRS

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the Company. The Board works with the Management to achieve this objective and the Management remains accountable to the Board.

The Board assumes responsibility for stewardship of the Company as well as its subsidiaries. Its primary role is to protect and enhance long-term shareholders' value. Apart from its fiduciary duties, the Board provides strategic guidance for the Group and supervises executive management. The Board also establishes policies on matters such as financial control, financial performance and risk management procedures and establishes goals for Management and monitors the achievement of these goals, thereby taking responsibility for the overall corporate governance of the Group.

To assist in the execution of its responsibilities, the Board has established several board committees namely, an Audit Committee ("**AC**"), a Nominating Committee ("**NC**") and a Remuneration Committee ("**RC**") (collectively, "**Board Committees**"). These Board Committees function within clearly defined terms of reference, which are reviewed on a regular basis. The Board established the Risk Management Committee ("**RMC**") in February 2013.

The Board meets on a regular basis and as and when necessary to address any specific significant matters that may arise. The Board and its committees may also decide on matters by way of circular resolutions. The frequency of meetings and attendance of each Director at every Board and Board Committee meeting are disclosed in this Report. The Bye-laws of the Company allow for participation in Board meetings via audio or video conferencing.

The attendance of the Directors at Board's meetings and Board Committees' meetings during the FY2016 were as follows:

	Board	AC	NC	RC	RMC
No. of meetings held	3	3	–	–	–
No. of meetings attended by respective Directors					
Executive Directors:					
Wu Xinhua[1]	3	3	–	–	–
Non-Executive Directors:					
Wu Dezhi[2]	3	3	–	–	–
Independent Directors:					
Low Wai Cheong[3]	3	3	–	–	–
Lim Yoke Hean[4]	–	–	NA	NA	NA

NA Not a member

1 Stepped down as the Executive Chairman and Chief Executive Officer and re-designated as a Non-Executive Non-Independent Director on 23 October 2017.

2 Resigned as a Non-Executive Non-Independent Director on 23 October 2017.

3 Not re-elected as the Non-Executive Independent Director, ceased as Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees on 28 November 2017.

4 Resigned as a Non-Executive Independent Director on 27 January 2016.

The Board has adopted internal guidelines setting forth matters that require Board's approval. Matters which are specifically reserved to the Board for decision are those involving a conflict of interest of a substantial shareholder or a Director, material acquisitions, disposal of assets, operating budgets and capital expenditure, corporate or financial restructuring, shares issuance, declaration of dividends and other returns to shareholders and matters which require Board's approval as specified under the Company's internal control policies, for example, the Interested Person Transaction ("**IPT**") policy.

A formal letter setting out the Directors' duties and responsibilities under various regulations is issued to new Directors upon their appointment. Newly appointed Directors will be briefed by the Management on the business activities of the Group, governance policies, policies on disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company, prohibitions in dealing in the Company's securities and restrictions on disclosure of price sensitive information.

To keep pace with regulatory changes, the director's own initiatives are supplemented from time-to-time with information, updates and sponsored seminars conducted by external professionals, including any changes in legislation and financial reporting standards, government policies, and regulations and guidelines from SGX-ST that affect the Company and/or the directors in discharging their duties. The directors are informed of developments relevant to the Group, including changes in laws, regulations and risks that may impact the Group. Directors can apply to the Company for funding for any such courses, conferences and seminars which they may apply to attend.

Directors are at liberty to request further explanations, briefings or informal discussions on any aspect of the Group's operations or business issues from management.

BOARD COMPOSITION AND GUIDANCE

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particulars, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board currently comprises 5 Directors, 3 of whom are Non-Executive Independent Directors.

The Directors of the Company as at the date of this report are:

Choo Han Kiat, Eric	(Executive Director)
Wu Xinhua	(Non-Executive Non-Independent Director)
Leow Yong Kin	(Non-Executive Lead Independent Director)
Toh Tiong San	(Non-Executive Independent Director)
Toh Hai Joo	(Non-Executive Independent Director)

There is presently a strong independent element on the Board and independence of each Director is reviewed by the NC. The NC adopts the definition in the Code as to what constitutes an independent director in its review. The Board, taking into account the NC's views, considers each of the abovenamed Independent Directors to be independent. The Company does not have any Independent Director who has served on the Board beyond nine years from the date of his first appointment.

The Board considers that the present board size and number of committees facilitate effective decision-making and are appropriate for the nature and scope of the Company's operations. The NC is of the view that no individual or small group of individuals dominates the Board's decision making process.

The Directors appointed are qualified professionals who, as a group, possess a diverse range of experience to provide core competencies such as legal, accounting, finance, business, management experience, industry knowledge and strategic planning experience.

Profiles of the Directors are set out in "Board of Directors" section of this Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

Wu Xinhua was the Executive Chairman ("**Executive Chairman**") and the Chief Executive Officer ("**CEO**") of the Company, prior to him stepping down from both positions on 23 October 2017.

The role of the Executive Chairman included ensuring that Board meetings were held when necessary and set the Board meeting agenda in consultation with the Company Secretary and ensuring that Board members were provided with complete, adequate and timely information.

The CEO's functions include the overall management, strategic direction and the day-to-day operations of the Group, and for ensuring that the organisational objectives of the Group were achieved.

Given that the role of Executive Chairman and CEO were undertaken by the same individual, Low Wai Cheong was previously appointed as the Lead Independent Director of the Company, before his cessation on 28 November 2017. Subsequently, Mr Leow Yong Kin has been appointed as the Non-Executive Lead Independent Director on 21 August 2018.

With the progressive refreshing of the Board in place, the Board will designate its Board Chairman and seek replacement CEO in due course.

BOARD MEMBERSHIP

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of new directors to the Board.

The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills to enable the Board to make effective decisions collectively.

The NC comprises three members, all of whom, including the chairman, are independent. The members of the NC are as follows:

Toh Hai Joo	(Chairman)
Leow Yong Kin	(Member)
Toh Tiong San	(Member)

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of Directors to the Board, to consider how the Board's performance may be evaluated.

The NC's duties and functions are outlined as follows:

1. review and make recommendations to the Board on all candidates nominated (whether by the Board, shareholders or otherwise) for appointment to the Board, taking into account the candidate's track record, age, experience, capabilities and other relevant factors;

2. identify and make recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each annual general meeting of the Company, having regard to the Directors' contribution and performance (such as their attendance, preparedness, participation and candour), including, if applicable, as independent Directors;

3. determine annually whether or not a Director is independent, in accordance with the guidelines contained in the Code and other salient factors;

4. to review whether a Director is able to and has adequately carried out his duties as a Director of the Company in particular where the Director concerned has multiple board representations; and

5. to consider how the Board's performance may be evaluated and to propose for the Board's approval, objective performance criteria (that allows comparison with the Company's industry peers) to evaluate the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board.

The NC conducts an annual review of Directors' independence based on the definition of independence set out in the Code. The NC and the Board considers Leow Yong Kin, Toh Tiong San and Toh Hai Joo to be Independent Directors.

The NC considered the performance and contribution of each of the retiring Directors, having regard not only to their attendance and participation at Board and Board Committee meetings but also the time and effort devoted to the Group's business and affairs.

The NC will, at least once every year, review and thereafter, make recommendations to the Board regarding the Board structure, size, composition and core competencies.

The NC may identify candidates for appointment as new directors through the business network of Board members or through external independent professional advisors to assist in the search for suitable candidates. The NC will generally identify suitable candidates skilled in core competencies such as strategic planning, accounting or finance, business or management expertise.

The Company has a policy to require that a Director should not hold more than 5 listed company board representations.

In accordance with the Bye-laws of the Company, each Director shall retire at least once every three (3) years and all Directors appointed by the Board will have to retire at the next Annual General Meeting ("**AGM**") following their appointments (such Director shall then be eligible for re-election at that AGM).

Eric Choo Han Kiat and Toh Hai Joo are retiring as Directors at the forthcoming AGM of the Company pursuant to the Bye-laws of the Company. The NC and the Board had nominated them for re-election as Directors.

Currently, the Board does not have any alternate Directors.

Details of the Directors' academic and professional qualifications and directorships or chairmanships both present and those held over the preceding three years in other listed companies and other principal commitments are set out on pages 5 to 7 of this Annual Report.

Information regarding the Directors' shareholdings in the Company and related corporations is set out on page 24 of this Annual Report.

BOARD PERFORMANCE

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

While the Code recommends that the NC be responsible for assessing the Board as a whole and its Board Committees as well as each Director's contribution, the NC is of the view that it is more appropriate and effective to conduct assessment of the Board as a whole, bearing in mind that each member of the Board contributes in a different way to the success of the Company and Board decisions are made collectively.

The Board has implemented a process for assessing the effectiveness of the Board as a whole. Each Board member is required to complete a Board performance evaluation form adopted by the NC on a yearly basis. The Chairman of the NC will then prepare a consolidated report and presents the same to the Board for discussion on the changes or actions to be taken in order for the Board to discharge its duties more effectively. The performance criteria for the Board evaluation are in respect of Board size, composition and independence, conduct of meetings, Board procedures, Board accountability, corporate strategy and planning, risk management and internal control.

The Board has taken the view that the financial indicators, may not be appropriate as these are more of a measurement of Management's performance and therefore less applicable to Directors.

The NC has also reviewed the contribution by each individual director to the effectiveness of the Board as a whole and to its Board Committees in FY2016 and is satisfied that sufficient time and attention has been given by the Directors to the affairs of the Group.

ACCESS TO INFORMATION

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

Under normal circumstances, the Board has separate and independent access to senior Management and the Company Secretary and is informed of material events and transactions as and when they occur. Directors are entitled to request from management and would under normal circumstances be provided, in a timely manner, with such additional information as needed to make informed decisions. The Company Secretary coordinates, attends and prepares minutes of board meetings and advises on relevant rules and regulations as well as corporate governance practices.

If the Directors, whether individually or as a group, in furtherance of their duties, need independent professional advice, the Company will, upon the direction of the Board, appoint a professional adviser to render such advice at the Company's expense.

(B) REMUNERATION MATTER

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises three members, all of whom, including the chairman, are independent. The members of the RC are as follows:

Toh Tiong San	(Chairman)
Leow Yong Kin	(Member)
Toh Hai Joo	(Member)

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual Directors and senior Management. The RC's review will cover all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, share options and benefits-in-kind and specific remuneration package for each Director. In structuring a compensation framework for executive Directors and key executives, the RC seeks to link a proportion of executive compensation to the Group's performance. The RC's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No Director is involved in deciding his own remuneration.

The RC has access to expert advice externally or within the Company with regard to remuneration matters where deemed necessary.

LEVEL AND MIX OF REMUNERATION

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The remuneration policy of the Company is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate Directors and senior Management.

The Executive Directors do not receive Directors' fees. The remuneration packages of Executive Directors' and key senior Management are based on their service contracts and are determined by the performance of the individuals, as well as the Group and industry benchmark. The remuneration packages for the Executive Directors and staff are made up of both fixed and variable components. The variable components are determined based on the performance of the individual employees as well as the Group's performance. Previously, the service contract for Wu Xinhua as CEO is a fixed appointment period and can be terminated by either party, giving not less than six (6) months' notice in writing.

Non-executive and Independent Directors are paid Directors' fees of an agreed amount, taking into account factors such as effort and time spent, their contributions, and the respective responsibilities of the Directors. Directors' fees are recommended by the Board for shareholders' approval at the Company's AGMs.

DISCLOSURE ON REMUNERATION

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

a) No. of Directors in the following remuneration bands for FY2016 are as follows:

Below S$250,000	4
Total	4

b) A breakdown, showing the level and mix of each individual Director's remuneration and fees for FY2016 is as follows:

Remuneration Bands & Name of Directors	Directors' Fees S$'000	Salary S$'000	Bonus S$'000	Share-based incentives and awards S$'000	Other benefits S$'000	Total S$'000
Below S$250,000						
Non-Executive Director:						
Wu Dezhi[1]	11	–	–	–	–	11
Independent Directors:						
Lim Yoke Hean[2]	50	–	–	–	–	50
Low Wai Cheong[3]	45	–	–	–	–	45
Executive Director:						
Wu Xinhua	–	132	–	–	14	146

1 Resigned on 23 October 2017
2 Resigned on 27 January 2016
3 Not re-elected on 28 November 2017

No. of key executives in the following remuneration bands for FY2016 are as follows:

Below S$250,000	5
Total	5

d) Breakdown, showing the level and mix of each key executive's remuneration for FY2016, is as follow:-

Remuneration Bands & Name of Key Executives	Salary S$'000	Bonus S$'000	Share-based incentives and awards S$'000	Other benefits S$'000	Total S$'000
Below S$250,000					
Mak Chi Shing	84	–	–	–	84
Feng Liang	40	–	–	9	49
Wu Xinda	32	–	–	9	41
Zhang Zhenghe	32	–	–	9	41
Zhang Dufang	26	–	–	9	35

In view of the competitive pressures in the talent market, the remuneration paid to the CEO, Executive Director and top five key management personnel are not fully disclosed. The total remuneration paid to the top 5 key executives (who are not Directors) for the financial year ended 31 December 2016 was approximately S$250,000.00.

Immediate Family Members of Directors

No immediate family member of any Director was in employment with the Group and whose remuneration has exceeded S$50,000 during FY2016.

China Fibretech Share Award Scheme

China Fibretech Share Award Scheme (the "**Scheme**") was approved by the shareholders on 29 April 2014. Pursuant to the rules of the Scheme, the Scheme is administered by the RC.

The Scheme is a performance incentive scheme which will form an integral part of the Group's incentive compensation programme. The purpose of the Scheme is to provide an opportunity for full-time employees of the Group and Directors (excluding Independent Directors) (the "**Selected Persons**"), who have met performance targets to be remunerated not just through cash bonuses but also by an equity stake in the Company. As the shares of the Company will be issued free under the Scheme, the Selected Persons would receive the same benefit from a contingent award under the Scheme ("**Award**") in respect of fewer shares as they would receive if share options were granted instead of a larger number of shares. The Scheme would therefore allow the Company to provide the incentive to employees while reducing the dilutive effect on shareholders.

The Awards given to a particular Selected Person will be determined at the discretion of the RC, who will take into account factors such as the Selected Person's capability, scope of responsibility, skill and vulnerability to leaving the employment of the Group. In deciding on an Award to be granted to a Selected Person, the RC will also consider all aspects of the compensation and/or benefits given to the Selected Person and such other share-based incentive schemes of the Company, if any. The RC may also set specific criteria and performance targets for each of its business units, taking into account factors such as (i) the Company's and the Group's business goals and directions for each financial year; (ii) the Selected Person's actual job scope and responsibilities; and (iii) the prevailing economic conditions.

(C) ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is accountable to shareholders for the management of the Group. The Board updates shareholders on the operations and financial position of Company on a quarterly basis when it releases its results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations. The Management is accountable to the Board by providing the Board with the detailed financial information whenever necessary for the discharge of its duties to the shareholders.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.

The Board recognises its responsibilities over the governance of risks and regularly reviews the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology controls (collectively, "**Internal Controls**"), with the assistance of the management, the external auditors and the internal auditors appointed by the Company.

The Board has set in place management procedures for ensuring a sound system of risk management and Internal Controls. These procedures include, since FY2013, a structured Enterprise Risk Management ("**ERM**") system, management reviews of key transactions, and the assistance of independent consultants such as the Group's external and internal auditors to review financial statements and Internal Controls covering key risk areas.

The ERM programme established by the Company which covers the following areas:

ERM policies and procedures

An overall framework for risk management has been documented in a manual to be disseminated to personnel responsible for oversight of risks and operations of risk countermeasures. This ERM manual includes the terms of reference of the various personnel and committees responsible for monitoring and managing risks in the Group. The ERM process will also require ongoing identification of key risks to the Company and reporting these risks to the Board to better determine whether appropriate measures have been taken to address relevant risks. Risk workshops, attended by key management personnel, are conducted annually to provide a structured approach to identify and assess of risks of the Group.

On 21 February 2013, a Risk Management Committee ("**RMC**") was set up with Mr Lim Yoke Hean appointed as the Chairman of RMC. The members of RMC include Mr Wu Xinhua, Ms Gao Yan, Mr Low Wai Cheong, Mr Lim Yoke Hean and Mr Mak Chi Shing. With the progressive refreshing of the Board in place, the composition of the RMC will be determined and reconstituted in due course.

Risk Appetite of the Company

Generally, the Board will rely on management to monitor day to day operations while subjecting key corporate decisions, such as investments or acquisitions of businesses to Board approval. Management frequently reviews the Group's business and operational activities to identify and highlight to the Board and AC any areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Company's performance is monitored closely by the Board periodically and any significant matters that might have an impact on the operating results are required to be brought to the immediate attention of the Board.

The Company has also taken a strict stance towards avoiding any risks that might result in breaching relevant laws and regulations and risks that could adversely affect the reputation of the Group. Active efforts are also in place to manage risks within impact such as transferring them to third party insurers or having internal control procedures to better mitigate the likelihood of their occurrence. Internal audits will be regularly conducted to assess the ongoing compliance with the established controls to address key risk areas where applicable.

Risk assessment and monitoring

Based on the ERM framework, the nature and extent of risks to the Company will be assessed regularly and risk reports covering top risks to the Group will be submitted to the Board at least on a half yearly basis. A set of risk registers to document risks arising from this ERM exercise has been also been established to document all key risks and the corresponding countermeasures to the Company. This registers will be updated whenever new risks emerge.

The Company has started their first Control Self Assessment ("**CSA**") exercise covering key operating areas in the Group. This exercise comprises internal control questionnaires to be completed by staff to assess level of effectiveness of internal controls and risk countermeasures. The CSA exercise will cover all the key business processes of the Group and results of the exercise will be included in the periodic risk reports to the Board and Audit Committee.

Due to the uncertainties surrounding certain potential customers' claims as described in the Company's announcement on 30 November 2015, the Board is unable to receive assurance from the CEO (Wu Xinhua stepped down as CEO on 23 October 2017) and the Group's Senior Finance Manager (resigned on 8 June 2017) that:

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

(b) the Company's risk management and Internal Control systems are effective.

The Board, with the concurrence of AC, is of the opinion that, the internal controls established and maintained by the Group's Management throughout the financial year ended 31 December 2016 is adequate and effective to address the financial, operational, compliance and information technology controls, and risk management systems of the Group.

The Board and AC are of the opinion that, the Company's Internal Controls were adequate based on:

- The Internal Controls established and maintained by the Group;
- Reports issued by the internal auditors and external auditors;
- Risk reports arising from the ERM exercise
- Regular reviews performed by the Management, and annual review undertaken by AC and the Board; and
- Confirmation by the Management.

AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises entirely of non-executive Directors, all of whom, including the Chairman, are independent. The members of the AC are as follows:-

Leow Yong Kin	(Chairman)
Toh Tiong San	(Member)
Toh Hai Joo	(Member)

The AC assists the Board to maintain a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the financial reporting, management of financial and control risks, and monitoring of the internal control systems.

The members of the AC, collectively, are appropriately qualified to discharge the AC's responsibilities. Leow Yong Kin, Toh Tiong San and Toh Hai Joo all possess the requisite accounting and related financial management expertise and experience.

The duties and responsibilities of the AC in accordance with its terms of reference, which include the following:

1. assists the Board in discharging its statutory responsibilities on financial and accounting matters;

2. reviews the financial and operating results and accounting policies of the Group;

3. reviews significant financial reporting issues and judgements relating to financial statements for each financial year, interim and annual results announcement before submission to the Board for approval;

4. reviews the adequacy of the Company's internal controls and risk management policies;

5. reviews the audit plans and reports of the external and internal auditors and consider the effectiveness of the actions taken by Management on the auditors' recommendations;

6. appraises and report to our Board on the audits undertaken by the external and internal auditors, the adequacy of the disclosure of information, and the appropriateness and quality of the system of management and internal controls;

7. reviews the independence of external auditors annually and nominate external auditors for appointment or re-appointment of and consider matters relating to the resignation or removal of the auditors and approve the remuneration and terms of engagement of the external auditors; and

8. reviews IPTs, as defined in the Listing Manual of the SGX-ST.

In 2016, the independent director(s) in the AC has restricted access to and has restricted co-operation from the management and has been given restricted resources required for it to discharge its function. Hence, the AC is unable to discharge its functions properly, in particular the following:

1. the audit plan and results of the external audit and the independence and objectivity of the external auditors, including the review of the extent of non-audit services provided by the external auditors to the Group;

2. the adequacy of the Group's risk management processes;

3. the Group's compliance with legal requirements and regulations, including the related compliance policies and programmes and reports received from regulators, if any;

4. Group's quarterly and annual financial statements and the external auditors' report on the annual financial statements of the Group and of the Company before their submission to the board of directors;

5. the quarterly, half-yearly and annual announcements as well as the related press releases on the results of the Group and financial position of the Group and of the Company;

6. interested person transactions in accordance with SGX listing rules.

The AC will convene at least four (4) meetings after the end of each quarter of every financial year. The external auditor will also be present except the fourth AC meeting at the relevant junctures. In its review of the audited financial statements for FY2016, the AC discussed with the Management and external auditors the audit work performed and accounting principles applied.

The AC has explicit authority to investigate any matter within its terms of reference. It also has the discretion to invite any Director or Management to attend its meetings.

The AC also meets with the external auditors and internal auditors without the presence of the Management at least once a year. The Company is in compliance with Rule 712 and Rule 715 of the Listing Manual of SGX-ST whereby the Company appoints a suitable auditing firm to meet its audit obligations in respect of its own accounts and for its subsidiaries.

The AC has reviewed the services performed by RT LLP and noted that no non-audit services were provided in FY2016.

The aggregate amount of fees paid to RT LLP for audit services for FY2016 is S$100,000.00.

The AC has reviewed and is satisfied with the independence of the external auditors, and has recommended to the Board that RT LLP be nominated for re-appointment as auditors of the Company at the forthcoming AGM.

The Company has put in place a whistle-blowing policy and arrangements where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions. The procedures for reporting such matters and the contact details of the AC have been made available to the employees on the subsidiaries' general notice board. On a public approach, any person who wishes to raise such concerns or matters to the AC's members may do so in confidence by way of email to "ac@chinafibretech.com".

The AC is briefed by the external auditors of changes to accounting standards and issues which have a direct impact on financial statements during the presentation of the audit plan and the audit report to the AC.

INTERNAL AUDIT

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Management has put in place the systems of Internal Controls within the Group to identify risks and document countermeasures to address risks in the Group's business, and to safeguard the shareholders' interests and the Group's assets.

Top ten risks and their respective countermeasures are identified by key management and documented in the Group's risk register and discussed with the Board regularly. The abovementioned systems are intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

Management will review and adjusts its business and operational activities, if necessary, where it identifies areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures on a continuous basis and highlights all significant matters to the Board.

Management alone does not guarantee that business undertakings will not fail. However, by identifying and managing risks that may arise, the Group can make more informed decisions and benefit from a better balance between risk and reward. This will help protect and also create shareholders' value.

Management is then expected to ensure that appropriate controls are in place to manage those risks, and such risks and controls are monitored by the Board on a regular basis.

The Company's external auditors also highlight internal control issues that came to their notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and these issues and their recommendations are reported to the AC.

The internal audit function is outsourced to BDO LLP who report primarily to the AC. BDO LLP is an international auditing firm and they perform their work based on the BDO Global Internal Audit Methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

The AC reviews and approves the internal audit plan submitted by the internal audit function. Upon completion of internal audit, the internal audit function reports to the AC any significant weaknesses and risks identified in the internal audits. Implementation of internal audit recommendations is further reviewed by the internal audit function based on dates agreed with the Management. The internal auditors have unfettered access to the Company's documents, records, properties and personnel, including access to the AC members.

The AC also review, at least annually, the adequacy and effectiveness of the internal audit function including the qualifications and experience of the internal audit staff assigned to perform the reviews.

The Board notes that any system of internal controls can only provide reasonable, but not absolute, assurance that the Group would not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. Therefore, the Board recognizes the limitations that are inherent in any system as this control system is designed to manage rather than eliminate risk of failure to achieve corporate objectives. The Board is also of the view that given the above limitations to internal controls system, there is no absolute assurance against occurrence of material errors, poor judgement in decision-making, human error, fraud or other irregularities.

(D) SHAREHOLDER RIGHTS AND RESPONSIBILITIES

SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should practice, protect and facilitate the exercise of shareholder's rights, and continually review and update such governance arrangements.

The Company is committed to maintaining and improving its level of corporate transparency, providing timely, fair and adequate disclosure of relevant nformation to shareholders so that they will be apprised of the developments that may have a material impact on the Company's securities. The Company does not practice selective disclosure. Such information is published through the SGXNET. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure.

The Company ensures true and fair information is delivered adequately to all shareholders and to ensure that shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders.

The Company's Bye-laws presently do not permit a shareholder, including a corporation which provides nominee or custodial services, to appoint more than two proxies to attend and participate in shareholders' general meetings as proxies.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

In line with continuous disclosure obligations of the Company, pursuant to the SGX-ST's Listing Manual, the Board has devised an effective investor relations policy to regularly convey pertinent information to shareholders in a timely manner, of material events and all major developments that impact the Group.

Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication is made through:

- Annual reports that are prepared and issued to all shareholders. The Board makes every effort to ensure that the annual report includes all relevant information about the Group, including future developments and other disclosures required by the Listing Manual and the relevant accounting standards;
- Quarterly financial statements containing a summary of the financial information and affairs of the Group for the period;
- Notices of and explanatory memoranda for annual general meetings and extraordinary general meetings;
- Analyst briefings for the Group's quarterly and annual results as well as other briefings, as appropriate;
- Press releases on major developments of the Group;
- Disclosures to the SGX-ST; and
- The Group's websites at http://www.china-fibretech.com at which shareholders can access information of the Group. The website provides, inter alia, products information and profile of the Group.

The Executive Director is handling investor relations to support the Group in promoting communication and investment community. The contact information of the Company is stated in the corporate website.

In view of the current performance of the Group, the Company had decided not to declare any dividends for FY2016 to preserve cash for any future investment plans.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Bye-laws of the Company allows shareholders to vote at general meetings in person or by proxy and equal effect is given to such votes. Separate resolutions are tabled at general meetings on each distinct issue. Management, Directors and, where necessary, the external auditors and legal advisors are present and available to address questions at general meetings.

Minutes of general meetings of the Company which include comments or queries from shareholders relating to the agenda of the meeting as well as responses from the Board and management are prepared and made available to shareholders upon request.

All resolutions of the Company will be put to vote by poll and the detailed results showing the number of votes cast for and against each resolution and the respective percentages will be announced.

(E) DEALING IN SECURITIES

The Company has adopted its own internal compliance code pursuant to the SGX-ST's best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company's securities. The Company and its officers are prohibited from dealing in the Company's shares during the period commencing two (2) weeks before the announcement of the Company's quarterly financial results and one (1) month before the announcement of the Company's full-year financial results, or if they are in possession of unpublished price-sensitive information of the Company. In compliance with Rule 1207(19)(b), the Company also prohibits its officers from dealing in the Company's securities on short-term considerations. In addition, Directors and officers are expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period.

(F) MATERIAL CONTRACTS

There were no material contracts of the Company or its subsidiaries involving the interests of the CEO, any Director or controlling shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

(G) INTERESTED PERSON TRANSACTION ("IPT")

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC, if any, and that the transactions are carried out on a normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There were no IPT with an aggregate value of more than S$100,000 in FY2016. First Board Corporate Advisory Pte. Ltd. ("First Board"), which has been providing corporate secretarial services to the Company since 1 January 2010, continued to provide corporate secretarial services to the Company during FY2016. First Board is 50% owned by a partner of ChrisChong & CT Ho Partnership, a firm in which Low Wai Cheong is an equity partner with a 20% interest. The total fees paid to First Board and ChrisChong & CT Ho Partnership by the Company in FY2016 is well below the threshold of S$100,000 set out under Chapter 9 of the Listing Manual, and is therefore exempted from disclosure pursuant to Rule 907 of the Listing Manual. First Board ceased to provide corporate services to the Company in August 2016.

As disclosed under the Notes to the Financial Statements FY2016 of this Annual Report, the total payment made to Fujian Province Shishi City Hongyuan Paper Plastic Packaging Development Co. Ltd, of which 100% equity interest is owned by a nephew of Wu Xinhua, in relation to the purchase of packaging materials during FY2016 amounted to RMB1,176,000 and the total payment made to Shishi City Haitian Environmental Engineering Co., Ltd., of which less than 2% equity interest is owned by a daughter of Wu Xinhua, in relation to the wastewater treatment services during FY2016 amounted to RMB2,130,000. The individual transactions of the abovementioned payments are less than S$100,000 and are therefore also exempted from disclosure pursuant to Rule 907 of the Listing Manual.

(H) UTILIZATION OF PROCEEDS FROM INITIAL PUBLIC OFFERING ("IPO")

The Company refers to the net IPO proceeds of approximately S$16.3 million raised from the initial public offering of shares on 30 June 2008. As at the date of this report, the net proceeds from the Company's initial public offering has been utilised as follows:

Use of IPO proceeds	Amount allocated S$'000	Amount utilized S$'000	Balance S$'000
To construct new facilities and acquire new machinery	14,000	13,231	769
To expand our research and development capabilities	1,000	1,000	–
For working capital purpose	1,282	1,282	–
	16,282	15,513	769

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of China Fibretech Ltd. (the "Company") and its subsidiaries (the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2016.

1. Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company together with the notes thereto are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

The directors of the Company in office at the date of this statement are:

Executive director

Eric Choo Han Kiat (Appointed on 5 October 2017)

Independent non-executive director

Leow Yong Kin (Appointed on 5 October 2017)
Toh Tiong San (Appointed on 23 October 2017)
Toh Hai Joo (Appointed on 1 March 2018)

Non-independent non-executive director

Wu Xinhua (吴新华) (Redesigned on 23 October 2017)

3. Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except as disclosed in paragraph 4 below.

4. Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had an interest in the shares or debentures of the Company and its related corporations, except as disclosed below:

	Direct interest			Deemed interest		
	At beginning of year	Addition	At end of year	At beginning of year	Addition	At end of year
The Company						
China Fibretech Ltd.						
(No. of ordinary shares of US$2 each)						
Wu Xinhua	–	–	–	4,522,093	–	4,522,093
The Ultimate Holding Company						
Wellgain International Holdings Limited						
(No. of ordinary shares of US$1.00 each)						
Wu Xinhua	1	–	1	–	–	–

5. Share options

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option as at the end of the financial year.

6. Audit committee

The Audit Committee of the Company comprises three non-executive directors and at the date of this report, they are:

Leow Yong Kin
Toh Tiong San
Toh Hai Joo

The Audit Committee has convened one meeting during the year with key management and the external auditors of the Company.

The Audit Committee carried out its duties which included the following:

(i) the audit plans of the internal auditors of the Group and their evaluation of the adequacy of the Group's system of internal accounting controls;

(ii) Group's quarterly and annual financial statements and the external auditors' report on the annual financial statements of the Group and of the Company before their submission to the board of directors;

(iii) the quarterly, half-yearly and annual announcements as well as the related press releases on the results of the Group and financial position of the Group and of the Company;

(iv) interested person transactions in accordance with SGX listing rules;

(v) nomination of external auditors and approval of their compensation; and

(vi) submission of report of actions and minutes of the Audit Committee to the board of directors with any recommendations as the Audit Committee deems appropriate.

In 4Q2017, the independent director(s) in Audit Committee has received co-operation from the management and has been given resources required for it to discharge its function.

(i) the audit plan and results of the external audit and the independence and objectivity of the external auditors, including the review of the extent of non-audit services provided by the external auditors to the Group;

(ii) the adequacy of the Group's risk management processes;

(iii) the Group's compliance with legal requirements and regulations, including the related compliance policies and programmes and reports received from regulators, if any;

(iv) Group's quarterly and annual financial statements and the external auditors' report on the annual financial statements of the Group and of the Company before their submission to the board of directors;

(v) the quarterly, half-yearly and annual announcements as well as the related press releases on the results of the Group and financial position of the Group and of the Company; and

(vi) interested person transactions in accordance with SGX listing rules.

The Audit Committee has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of RT LLP for re-appointment as external auditors of the Group at the forthcoming AGM of the Company.

On behalf of the Board of Directors

Eric Choo Han Kiat	**Leow Yong Kin**
Director	Director

8 June 2018

To the Members of China Fibretech Ltd.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of China Fibretech Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group, and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 30 to 75.

We do not express an opinion on the accompanying financial statements of the Group and the statement of financial position and statement of changes in equity of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

(1) Opening balances

Our independent auditor's report dated 20 December 2016 contains a disclaimer of opinion on the financial statements for the financial year ended 31 December 2015. The basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2015 is disclosed in Note 32 to the financial statements.

In view of the matters described in the basis for disclaimer of opinion paragraphs on the financial statements for the financial year ended 31 December 2015, we were unable to determine whether the opening balances as at 1 January 2016 are fairly stated.

Since the opening balances as at 1 January 2016 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 31 December 2016, we were unable to determine whether adjustments, if any, might have been found to be necessary in respect of the Group's and the Company's financial statements for the financial year ended 31 December 2016.

Our opinion on the current financial year's financial statements of the Group and the Company is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

(2) Compensation claims by three customers

As disclosed in Note 30(a), on 30 November 2015, the Company's wholly-owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd (石狮市新华针织漂染有限公司) first received notices from its three existing customers ("Claimants") on 25 November 2015 and 26 November 2015 alleging that they had suffered substantial damages and financial losses due to the products processed by that subsidiary for not meeting their specified requirements, resulting in de-colouration of their end-products (the "Claims"). It was noted that the said notices did not contain quantification of the alleged losses incurred. These Claims were for products delivered in 2014 and early 2015.

The matters relating to the compensations were disclosed by the Company in their announcements on the Singapore Exchange dated 8 April 2016, 19 July 2016, 27 September 2016, and 29 September 2016.

Arising from the payment of compensation on 28 September 2016 as announced on 29 September 2016 Note 30(a), management has made a provision for compensation claims as at 31 December 2016 which amounted to RMBNil (2015: RMB470,475,000) as disclosed in Note 23 to the financial statements. We have not been able to verify the quantum of the payment as well as the parties to which the payments had allegedly been made. We were unable to verify the matters mentioned in the above announcements.

We were informed by the audit committee on December 2017, the board of directors of the Company have engaged special audit to conduct investigation on cash in bank and compensation claims by three customers. Consequently, we have not been provided with or able to obtain any independent evidence that would be sufficient and appropriate for our audit purposes to conclude on the Claims, their validity and their accounting treatment and disclosures.

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

(3) Bank confirmation

We were informed by the audit committee on December 2017 that the board of directors of the Company has engaged a special audit to conduct investigation on cash in bank and compensation claims by three customers (see point (2) above). Consequently, we were unable to carry out our audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence and the quantum of the bank balances in the current account and fixed deposits account amounting to RMB658,000 and RMBNil respectively (see Note 19) as at 31 December 2016. In addition, we were also unable to determine the existence, quantum and completeness of the bank borrowings, which amounted to RMB12,900,000 (see Note 24) as at 31 December 2016.

Further, as disclosed in Note 24(a) & (b) to the financial statements, the bank borrowings of RMB4,400,000, RMB3,500,000 and RMB5,000,000 granted to the Group had matured on 5 September 2017, 8 August 2017 and 22 March 2017 respectively. We have not been provided with any supporting documents with respect to the settlement of these borrowings. Consequently, we were unable to establish whether these loans have been fully settled on their maturity date.

(4) Going concern

As disclosed in Note 1.2 to the financial statements, as at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB10,340,000. In addition, the Group incurred a net loss of RMB3,587,000 and recorded net operating cash outflows of RMB444,680,000 during the financial year ended 31 December 2016.

As disclosed in Note 30(a), and as noted in our report above (Point 2), the Group paid a total compensation amount of RMB465,998,000 after netting off against the trade receivables amounting to RMB4,477,000 to the Claimants namely, 晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司.

Accordingly, the Group's cash and cash equivalents of approximately RMB660,000 (Note 19) as at 31 December 2016 have been substantially depleted due to the above compensation paid on 28 September 2016. This has created a material uncertainty with respect to cash flow management that may cast significant doubt over the Group's and the Company's ability to continue as going concerns.

As disclosed in Note 1.2 to the financial statements, the directors have prepared these financial statements on a going concern basis. Based on the limited information about the Group and of the Company made available to us, we were unable to perform alternative procedures to determine the appropriateness of the use of the going concern assumption.

(5) Prepayment of land use rights

As disclosed in Note 18 to the financial statements, included in prepayments is a payment of land use right over a plot of land measuring 16,235 square metres located at Wubao Industrial Zone, Shishi City (2003-1-4) 石狮市鸿山镇伍堡污染工业区 (2003-1-4). This was paid in 2008 with carrying value of approximately RMBNil (2015: RMB20,343,000) to the Land Bureau of Shishi Municipal Government (the "Land Bureau"). This certificate of the land use rights has not yet been issued by the Land Bureau since 2008. On September 2016, the prepayment of RMB20,343,000 has been refunded to the Company in due course based on recent contract with the Land Bureau.

As we had not been furnished by the Company with any of the supporting documents with respect to the refund from the Land Bureau, nor had we been able to obtain information or perform any alternative procedures with respect to the land use rights, accordingly, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity and existence of this prepayment .

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

(6) Property, plant and equipment and land use rights

As at 31 December 2016, the Group's carrying values of property, plant and equipment and land use rights amounted to RMB27,694,000 and RMB2,305,000 respectively. As disclosed in Note 24 to the financial statements, the bank borrowings are secured by the Group's buildings on leasehold land (Note 12) and land use rights (Note 13) with carrying amounts of RMB6,268,000 and RMB2,305,000 respectively.

With reference to Point 3 above, we were not able to perform audit procedures relating to bank balances and borrowings. Consequently, we were unable to verify the ownership or collateralisation of the buildings on leasehold land and land use rights. The Company has informed us that the title deed is being held by the bank as collateral.

In addition, management has also not determined the recoverable amount of, nor assessed for any allowance for impairment of the property, plant and equipment and land use rights. We were also unable to perform alternative audit procedures to assess the appropriateness of the carrying amount of the property, plant and equipment and land use rights.

(7) Inventories

As at 31 December 2016, the Group's inventories had a carrying value of RMB564,000 (Note 16). As the Company did not make arrangements for us to observe the counting of physical inventories as at the end of the financial year, we were unable to satisfy ourselves concerning the inventory quantities held as at 31 December 2016. Neither were we able to perform alternative audit procedures. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of recorded and unrecorded inventories, and the elements making up the statements of financial position, consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and consolidated statement of cash flows.

(8) Tax provision

In view of the above matters mentioned in the *Basis for Disclaimer of Opinion* section of our report, we were unable to determine the consequential tax impact arising from any necessary and consequential adjustments and the appropriateness and completeness of disclosures made in the financial statements for the financial year ended 31 December 2016.

(9) Significant events during the financial year

We were unable to complete all our audit procedures for the significant events occurring during the financial year, which we considered necessary to satisfy ourselves on the significant matters occurring during the financial year with respect to items recorded or unrecorded as at 31 December 2016. Accordingly, in view that the Company has engaged a special audit to conduct investigation on the significant events noted in our report above (Points 2 and 3), we were unable to determine whether all significant events during the year have been adequately dealt with in these financial statements (see Note 30) with respect to disclosures, presentation and adjusting significant events during the financial year.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with FRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements and Company's statement of financial position and statement of changes in equity in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Su Chun Keat.

RT LLP
Public Accountants and
Chartered Accountants

Singapore
8 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	Note	Group 2016 RMB'000	Group 2015 RMB'000
Revenue	4	24,971	64,333
Cost of sales		(22,089)	(52,437)
Gross profit		2,882	11,896
Other income	5	1,919	3,041
Distribution costs		(580)	(715)
Administrative expenses		(4,724)	(5,416)
Other operating expenses		(2,164)	(471,508)
Finance costs	6	(894)	(1,038)
Loss before income tax	7	(3,561)	(463,740)
Income tax expense	9	(26)	(757)
Loss for the year, representing total comprehensive loss for the year		(3,587)	(464,497)
Loss per share attributable to owners of the Company (RMB)		**2016**	**2015**
- Basic and diluted	10	(0.40)	(51.73)

The accompanying notes form an integral part of and should be read in conjunction with these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

		Group		Company	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
ASSETS					
Non-current assets					
Intangible assets	11	–	–	–	–
Property, plant and equipment	12	27,694	26,055	–	–
Land use rights	13	2,305	2,366	–	–
Investments in subsidiaries	14	–	–	–	–
Amount due from a subsidiary	15	–	–	–	–
Total non-current assets		29,999	28,421	–	–
Current assets					
Inventories	16	564	816	–	–
Trade and other receivables	17	4,119	15,400	–	–
Prepayments	18	4,560	20,462	–	120
Amount due from a subsidiary	15	–	–	4,796	4,796
Cash and cash equivalents	19	660	450,127	5	23
Total current assets		9,903	486,805	4,801	4,939
Total assets		39,902	515,226	4,801	4,939
LIABILITIES AND EQUITY					
Equity					
Share capital	20	135,773	135,773	135,773	135,773
Treasury shares	21	(35)	(35)	(35)	(35)
Other reserves	22	(2,976)	(2,976)	79,908	79,908
Accumulated losses		(113,103)	(109,516)	(218,840)	(216,789)
Equity attributable to owners of the Company		19,659	23,246	(3,194)	(1,143)
Current liabilities					
Amount due to a subsidiary	15	–	–	4,896	4,796
Trade and other payables	23	7,343	8,428	3,099	1,286
Provision for compensation	23	–	470,475	–	–
Bank borrowings	24	12,900	12,900	–	–
Income tax payables		–	177	–	–
Total current liabilities		20,243	491,980	7,995	6,082
Total liabilities		20,243	491,980	7,995	6,082
Total liabilities and equity		39,902	515,226	4,801	4,939

The accompanying notes form an integral part of and should be read in conjunction with these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Retained earnings / (Accumulated losses) RMB'000	Total equity RMB'000
		Attributable to owners of the Company								
				Other reserves						
Group										
Balance at 1 January 2015		135,704	(35)	79,908	69	4,403	15,000	(102,287)	354,981	487,743
Issue of shares under equity-settled transactions	20	69	–	–	(69)	–	–	–	–	–
Total comprehensive loss for the year		–	–	–	–	–	–	–	(464,497)	(464,497)
Balance at 31 December 2015		135,773	(35)	79,908	–	4,403	15,000	(102,287)	(109,516)	23,246
Balance at 1 January 2016		135,773	(35)	79,908	–	4,403	15,000	(102,287)	(109,516)	23,246
Total comprehensive loss for the year		–	–	–	–	–	–	–	(3,587)	(3,587)
Balance at 31 December 2016		135,773	(35)	79,908	–	4,403	15,000	(102,287)	(113,103)	19,659

The accompanying notes form an integral part of and should be read in conjunction with these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Note	Share capital RMB'000	Treasury shares RMB'000	← Other reserves: Share premium RMB'000	Other reserves → Share- based payment reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Company							
Balance at 1 January 2015		135,704	(35)	79,908	69	(21,684)	193,962
Issue of shares under equity-settled transactions	20	69	–	–	(69)	–	–
Total comprehensive loss for the year		–	–	–	–	(195,105)	(195,105)
Balance at 31 December 2015		135,773	(35)	79,908	–	(216,789)	(1,143)
Balance at 1 January 2016		135,773	(35)	79,908	–	(216,789)	(1,143)
Total comprehensive loss for the year		–	–	–	–	(2,051)	(2,051)
Balance at 31 December 2016		135,773	(35)	79,908	–	(218,840)	(3,194)

The accompanying notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Note	Group 2016 RMB'000	Group 2015 RMB'000
Operating activities			
Loss before income tax		(3,561)	(463,740)
Adjustments for:			
Amortisation of land use rights	13	61	61
Depreciation of property, plant and equipment	12	3,148	3,283
Gain on disposal of property, plant and equipment, net	5	–	(105)
Provision of compensation claims	23	–	470,475
Interest income	5	(1,919)	(2,936)
Interest expenses	6	894	1,038
Operating cash flows before changes in working capital		(1,377)	8,076
Changes in working capital:			
Inventories		252	(119)
Trade and other receivables		27,183	1,037
Trade and other payables		(471,560)	(203)
Cash (used in) /generated from operations		(445,502)	8,791
Interest paid		(894)	(1,038)
Interest received		1,919	2,711
Income taxes paid		(203)	(8,018)
Net cash (used in)/generated from operating activities		(444,680)	2,446
Investing activities			
Acquisition and construction of property, plant and equipment	12	(4,787)	(8,573)
Proceeds from disposal of property, plant and equipment		–	105
Net cash used in investing activities		(4,787)	(8,468)
Financing activities			
Proceeds from borrowings		12,900	12,900
Repayment of borrowings		(12,900)	(12,900)
Net cash used in financing activities		–	–
Net decrease in cash and cash equivalents		(449,467)	(6,022)
Cash and cash equivalents at beginning of financial year		450,127	456,149
Cash and cash equivalents at end of financial year	19	660	450,127

The accompanying notes form an integral part of and should be read in conjunction with these financial statements.

1. General information

1.1 Corporate information

China Fibretech Ltd. (the "Company") (Registration Number 40381) is incorporated in Bermuda with its registered office located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Group is located at Wubao Industrial Zone, Shishi City, Fujian Province 362700, The People's Republic of China ("the PRC"). The Group does not have a place of business in Singapore as at the date of this report.

The principal activity of the Company is investment holding.

The principal activities of the respective subsidiaries are disclosed in Note 14 to the financial statements.

The Company's immediate and ultimate holding company is Wellgain International Holdings Limited, a company incorporated in British Virgin Islands.

1.2 Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB10,340,000 (2015: RMB5,175,000). In addition, the Group incurred a net loss of RMB3,587,000 (2015:RMB464,497,000) and recorded net operating cash outflows of RMB444,680,000 (2015: net operating cash inflows of RMB2,446,000) during the financial year ended 31 December 2016.

Furthermore, as disclosed in Note 30(a), and noted in our Independent Auditors' Report above (Point 4), the Group paid a total compensation amount of RMB465,998,000 after netting off an amount of RMB4,477,000 due from these claimants namely, 晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司 on September 2016.

Accordingly, the Group's cash and cash equivalents of approximately RMB660,000 (Note 19) as at 31 December 2016 have been substantially depleted due to the above compensation on 28 September 2016. This has created a material uncertainty with respect to cash flow management that may cast significant doubt over the Group's and the Company's ability to continue as a going concern.

Notwithstanding this, the directors have prepared these financial statements on a going concern basis.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRSs") including related Interpretations of FRSs ("INT FRSs") and are prepared under the historical cost convention, except as disclosed in the accounting policies below.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Renminbi ("RMB") which is also the functional currency of the Company, and all values presented are rounded to the nearest thousand ("RMB'000"), unless otherwise indicated.

Interpretations and amendments to published standards effective in 2016

On 1 January 2016, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's and Company's accounting periods beginning after 1 January 2016 and which the Group and Company have not early adopted:

Effective for the Group's and Company's annual accounting period beginning on 1 January 2017

- Amendments to FRS7 (Disclosure initiative)
- Amendments to FRS12 (Recognition of deferred tax assets for unrealized losses)

Effective for the Group's and Company's annual accounting period beginning on 1 January 2018

- FRS 115 Revenue from Contracts with Customers
- FRS 109 Financial Instruments

Effective for the Group's and Company's annual accounting period beginning on 1 January 2019

- INT FRS 123 Uncertainty over Income Tax Treatments

The Directors do not anticipate that adoption of the above FRS and INT FRS in future periods will have a material impact on the financial statements of the Company and the Group in the period of their initial adoption except for FRS 115 and FRS 109. Management is currently evaluating the potential impact of the application of FRS 115 and FRS 109 on the financial statements of the Group and of the Company in the period of their initial application.

<u>FRS 109 - Financial Instruments</u>

FRS 109 supersedes FRS 39 Financial Instruments: Recognition and Measurement with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Under FRS 109, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for certain equity investments, for which the Group will have a choice to recognise the gains and losses in other comprehensive income. A third measurement category has been added for debt instruments – fair value through other comprehensive income. This measurement category applies to debt instruments that meet the Solely Payments of Principal and Interest contractual cash flow characteristics test and where the Group is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets.

FRS 109 carries forward the recognition, classification and measurement requirements for financial liabilities from FRS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, FRS 109 retains the requirements in FRS 39 for de-recognition of financial assets and financial liabilities.

FRS 109 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in FRS 39. This determines the recognition of impairment provisions as well as interest revenue. For financial assets at amortised cost or fair value through other comprehensive income, the Group will now recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition.

FRS 109 also introduces a new hedge accounting model designed to allow entities to better reflect their risk management activities in their financial statements.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

FRS 109 - Financial Instruments (Continued)

The Group plans to adopt FRS 109 in the financial year beginning on 1 January 2018 with retrospective effect in accordance with the transitional provisions. There may be a potentially significant impact on the accounting for financial instruments on initial adoption. Due to the recent release of this standard, the Group has not yet made a detailed assessment of the impact of this standard, however the Group will be required to re-assess the classification and measurement of financial assets, particularly those currently classified as available for sale and the new impairment requirements are expected to result in changes for impairment provisions on trade receivables and other financial assets not measured at fair value through profit or loss.

FRS 115 – Revenue from Contracts with Customers

FRS 115 introduces a comprehensive model that applies to revenue from contracts with customers and supersedes all existing revenue recognition requirements under FRS. The model features a five-step analysis to determine whether, how much and when revenue is recognised, and two approaches for recognising revenue: at a point in time or over time. The core principle is that an entity recognises revenue when control over promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FRS 115 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statement to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

On initial adoption of this standard there may be a potentially significant impact on the timing and profile of revenue recognition of the Group. Due to the recent release of this standard, the Group has not yet made a detailed assessment of the impact of this standard. The Group plans to adopt the standard in the financial year beginning on 1 January 2018 with either full or modified retrospective effect in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost, as appropriate.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses may be an impairment indicator of the asset concerned.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

Non-controlling interests in subsidiaries relate to the equity in subsidiaries which is not attributable directly or indirectly to the owners of the parent. They are shown separately in the consolidated statements of comprehensive income, financial position and changes in equity.

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

Non-controlling interests in the acquiree that are a present ownership interest and entitle its holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value, of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary it derecognises the assets and liabilities of the subsidiary and any non-controlling interest. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

In the separate financial statements of the Company, investments in subsidiaries are carried at cost, less any impairment loss that has been recognised in profit or loss.

2.3 Business combinations

<u>Business combinations from 1 January 2010</u>

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with FRS 105 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at the lower of cost and fair value less costs to sell.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

2. Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

Business combinations from 1 January 2010 (Continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 Income Taxes and FRS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with FRS 102 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill arising on acquisition is recognised as an asset at the acquisition date and is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as step acquisitions. Adjustments to those fair values relating to previously held interests were treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was probable and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

2. Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

Business combinations before 1 January 2010 (Continued)

Common Control Business Combination Outside the Scope of FRS 103

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. A business combination involving common control entities, is outside the scope of FRS 103. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the consolidated financial statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination. The carrying amounts are included as if such combined entity's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the combined entity.

The consolidated financial statements were prepared based on the audited financial statements of subsidiary which were prepared in accordance with FRS for the purpose of consolidation. The PRC subsidiary maintains its accounting records and prepares the relevant statutory financial statement in accordance with the accounting standards and legislations of the PRC Generally Accepted Accounting Principle ("GAAP").

Business combinations for the acquisition of Simwa Holdings Ltd, Shishi Simwa Knitting & Dyeing Co., Ltd and Xiamen Sunny Dyeing and Printing Co., Ltd were accounted for using the merger accounting as described above.

2.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of estimated customer returns, rebates and other similar allowances.

Rendering of services

Revenue from provision of dyeing and post-processing treatment services is recognised when the services are rendered to customers. Revenue excludes sales related taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income

Interest income is recognised using the effective interest method.

2.5 Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Summary of significant accounting policies (Continued)

2.6 Retirement benefit costs

The Group participates in the national pension schemes as defined by the laws of PRC. Subsidiaries incorporated in the PRC are required to provide staff pension benefits to their employees under existing PRC legislation. These subsidiaries are required to contribute a certain percentage of their payroll costs to the pension scheme to fund the benefits. The pension funds are managed by government agencies, which are responsible for paying pensions to the retired employees. Contributions under the pension scheme are charged to the profit or loss as they become payable in accordance with the rules of the pension scheme.

2.7 Employee leave entitlements

No provision has been made for employee leave entitlements as any unconsumed annual leave will be forfeited.

2.8 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the financial year.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each financial year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year and based on the tax consequence that will follow from the manner in which the Group expects, at the end of the financial year, to recover or settle the carrying amounts of its assets and liabilities except for the investment properties where investment properties measured at fair value are presented to be recovered entirely through sale. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Summary of significant accounting policies (Continued)

2.8 Income tax (Continued)

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- when the sales tax that is incurred on purchases is not recoverable from the tax authorities, in which case the sales tax is recognised as part of cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

2.9 Dividends

Equity dividends are recognised when they become legally payable. Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which dividends are approved by shareholders.

2.10 Foreign currency transactions and translation

Foreign currency transactions are translated into the individual entities' respective functional currencies at the exchange rates prevailing on the date of the transaction. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

2.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the plant and equipment.

Depreciation is charged so as to write off the cost of assets, other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

▪ Buildings on leasehold land	30 years
▪ Plant and machinery	5 – 10 years
▪ Furniture, fixtures and office equipment	5 years
▪ Renovation	5 years

No depreciation is charged on construction-in-progress as they are not yet in use as at the end of the financial year.

2. Summary of significant accounting policies (Continued)

2.11 Property, plant and equipment (Continued)

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are shown at their costs less accumulated depreciation, and where applicable, accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted as appropriate, at the end of each financial year.

The gain or loss, being the difference between the sales proceeds and the carrying amount of the asset, arising on disposal or retirement of an item of property, plant and equipment is recognised in profit or loss. Any amount in the revaluation reserve relating to that asset is transferred to retained earnings directly.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

There are no rules or guidelines under the existing rules and regulations in the PRC as to the responsibilities of restoration upon expiry of land use rights. There is no reliable estimation to the cost of restoration and the expenditure is not probable.

2.12 Intangible assets

Computer software

Acquired computer software licences are initially capitalised on the basis of the costs incurred to acquire and prepare the software for its intended use. Direct expenditure which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured is added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised over their estimated useful lives of 5 years.

Trademark

Trademarks are stated at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised over 10 years, which is the shorter of their estimated useful lives and periods of contractual rights.

2.13 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over the lease term of 50 years.

2.14 Impairment of tangible and intangible assets

The Group reviews the carrying amounts of its tangible and intangible assets as at each reporting date to assess for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Irrespective of whether there is any indication of impairment, the Group also tests its intangible assets with indefinite useful lives and intangible assets not yet available for use for impairment annually by comparing their respective carrying amounts with their corresponding recoverable amounts.

2. Summary of significant accounting policies (Continued)

2.14 Impairment of tangible and intangible assets (Continued)

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss for the amount by which the asset's carrying amount exceeds the recoverable amount is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.15 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Financial assets

All financial assets are recognised on a trade date – the date on which the Group commits to purchase or sell the asset. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets pertains to loans and receivables. The classification depends on the nature and purpose for which these financial assets were acquired and is determined at the time of initial recognition.

Loans and receivables

The Group's loans and receivables comprise trade and other receivables, amounts due from a subsidiary and cash and cash equivalents.

Such loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost, using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each financial year. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

2. Summary of significant accounting policies (Continued)

2.15 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Classification as debt or equity

Financial liabilities and equity instruments issued by Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Ordinary share capital

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

When shares recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale issue or cancellation of treasury shares.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

2. Summary of significant accounting policies (Continued)

2.15 Financial instruments (Continued)

Financial liabilities

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities are classified as at fair value through profit or loss if the financial liability is either held for trading or it is designated as such upon initial recognition.

Other financial liabilities

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

Borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (Note 2.5).

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and cash on hand which are subject to insignificant risk of changes in value.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, which is discounted using a pre-tax discount rate.

2. Summary of significant accounting policies (Continued)

2.18 Provisions (Continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss as they arise.

2.19 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instruments (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest and adjusted for the effect of non market-based vesting conditions. At the end of each financial year, the Group revises the estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised over the remaining vesting period with a corresponding adjustment to the equity-settled employee benefits reserve.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive directors and the chief executive officer who make strategic decisions.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements made in applying the Group's accounting policies

Management is of the opinion that there are no critical judgements (other than those involving estimates) that have a significant effect on the amounts recognised in the financial statements.

3.2 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of investments in subsidiaries

At the end of each financial year, an assessment is made on whether there are indicators that the Company's investments are impaired. Where necessary, the Company's assessments are based on the estimation of the value-in-use of the assets defined in FRS 36 Impairment of Assets by forecasting the expected future cash flows for a period of up to 5 years, using a suitable discount rate in order to calculate the present value of those cash flows.

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(i) Impairment of investments in subsidiaries (Continued)

During the current financial year, an impairment loss of RMBNil (2015: RMB102,370,000) was recognised for the investment in subsidiaries of the Company. The Company's carrying amount of investments in subsidiaries as at 31 December 2016 was RMBNil (2015: RMBNil) (Note 14).

(ii) Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment at 31 December 2016 were RMB27,694,000 (2015: RMB26,055,000) (Note 12).

(iii) Inventory valuation method

Inventory is valued at the lower of cost and net realisable value. Management reviews the Group's inventory levels in order to identify slow-moving and obsolete inventory and identifies items of inventory which have a market price, being the selling price quoted from the market of similar items that is lower than its carrying amount. Management then estimates the amount of inventory loss as an allowance on inventory. Changes in demand levels, technological developments and pricing competition could affect the saleability and values of the inventory which could then consequentially impact the Group's and Company's results, cash flows and financial position. The carrying amount of the Group's inventories as at 31 December 2016 was RMB564,000 (2015: RMB816,000). There was no allowance made on inventory for the year ended 31 December 2016 and 2015 (Note 16).

(iv) Provision for income taxes

The Group has exposure to income taxes in the PRC of which a portion of these taxes arose from certain transactions and computations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities of expected tax issues based on their best estimates of the likely taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax in the period in which such determination is made. The carrying amounts of the Group's current tax payable as at 31 December 2016 was RMBNil (2015: RMB177,000).

(v) Provision for compensation claims

The Group made provision for compensation claims amounting to RMBNil as at 31 December 2016 (2015: RMB470,475,000). The estimates provision for compensation claims was based on the demand notice received from the claimants and testing on products processed by the Company and was estimated based on the cost of the finished products for the customers. Changes in the outcome of further testing, if commissioned may result in changes in the amount of the required provisions. The carrying amount of the provision for compensation claims is disclosed in Note 23.

4. Revenue

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Provision of dyeing and post-processing treatment services for fabrics	24,971	64,333

5. Other income

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Interest income	1,919	2,936
Gain on disposal of property, plant and equipment	–	105
	1,919	3,041

6. Finance costs

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Interest expense on bank loans	894	1,038

7. Loss before income tax

Loss before income tax has been arrived at after charging / (crediting):

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Audit fee	481	452
Other audit fee	92	111
Amortisation of land use rights (Note 13)	61	61
Cost of inventories included in cost of sales	7,873	20,722
Depreciation of property, plant and equipment (Note 12)	3,148	3,283
Directors' fee – directors of the Company	285	503
Gain on disposal of property, plant and equipment, net	–	(105)
Net foreign exchange loss	79	50
Provision for compensation claims (Note 23)	–	470,475
Staff costs (Note 8)	6,196	10,466

8. Staff costs

	Group	
	2016	2015
	RMB'000	RMB'000
Directors' remuneration other than fee		
- salaries and related cost	575	750
- equity-settled share-based payment expense	–	69
- employer's contribution to defined contribution plan	57	76
	632	895
Key management personnel (other than directors)		
- salaries and related cost	602	561
- employer's contribution to defined contribution plan	41	41
	643	602
Other than directors and key management personnel		
- salaries and related cost	4,452	6,717
- employer's contribution to defined contribution plan	469	2,252
	4,921	8,969
	6,196	10,466

9. Income tax expense

	Group	
	2016	2015
	RMB'000	RMB'000
Current tax expense	–	757
Underprovision in prior years	26	–
	26	757

The tax expense on the results of the financial year differs from the amount of income tax determined by applying the statutory income tax rates of the respective countries to loss before income tax as a result of the following:

	Group	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	(3,561)	(463,740)
Tax at the domestic tax rates applicable to profits in the country where the Group operates	(890)	(115,935)
Add/(less):		
- Effect of non-deductible expenses	16	117,619
- Under provision in prior years	26	–
- Utilisation of previously unrecognised deferred tax benefits	–	(927)
- Effect of unutilised tax losses not recognised as deferred tax assets	874	–
Total tax expense	26	757

9. Income tax expense (Continued)

The unutilised tax losses carried forward by the PRC subsidiary is RMB4,342,000 (2015: RMB3,468,000).

Deferred tax asset is not recognised in the statement of financial position as it is not probable that future taxable profit will be available against which the subsidiary can utilise the benefits.

The Company ("China Fibretech Ltd") and its subsidiary, Simwa Holding Ltd ("Simwa Holding") are incorporated in Bermuda and The British Virgin Islands respectively and are exempted from tax in their country of jurisdiction.

The Group's subsidiaries, Shishi Simwa Knitting and Dyeing Co., Ltd ("Shishi Simwa") and Xiamen Sunny Dyeing and Printing Co., Ltd ("Xiamen Sunny") in the PRC are subject to the PRC corporate income tax on their taxable profits.

The tax rates are applicable to the following companies in the PRC as follows:

	Rate
Shishi Simwa	25.0%
Xiamen Sunny	24.0%

Xiamen Sunny was taxed at a preferential rate of 22%, now revised to 24%, for financial year beginning 1 January 2011 as it is located in Xiamen which is one of the Special Economic Zone ("SEZ") in the PRC as designated by the Chinese government.

Shishi Simwa has resumed standard corporate income tax rate of 25% for the financial year beginning 1 January 2012 as the entity had ended their tax holiday period in the financial year ended 31 December 2011.

10. Loss per share

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Group	
	2016	2015
	RMB'000	RMB'000
Losses		
Losses for the purposes of basic and diluted loss per share for the year attributable to the Company	(3,587)	(464,497)

	Group	
	2016	2015
	No. of shares '000	No. of shares '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	8,980	8,978

10. Loss per share (Continued)

Loss per share (RMB)

	2016	2015
Losses for the purposes of basic and diluted loss per share from continuing operations	(0.40)	(51.73)

11. Intangible assets

Group	Trademark RMB'000	Computer software RMB'000	Total RMB'000
Cost			
At 1 January 2015, 31 December 2015 and 2016	60	222	282
Accumulated amortisation			
At 1 January 2015, 31 December 2015 and 2016	60	222	282
Carrying amount			
At 31 December 2015 and 2016	–	–	–

12. Property, plant and equipment

Group	Buildings on leasehold land RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Renovation RMB'000	Construction-in-progress[1] RMB'000	Total RMB'000
2016						
Cost						
Balance at 1 January 2016	12,608	107,272	537	8,246	8,869	137,532
Additions	–	4,787	–	–	–	4,787
Disposals	–	–	–	–	–	–
Written off	–	(318)	–	–	–	(318)
Balance at 31 December 2016	12,608	111,741	537	8,246	8,869	142,001
Accumulated depreciation						
Balance at 1 January 2016	5,905	72,180	463	8,246	–	86,794
Depreciation	435	2,677	36	–	–	3,148
Written off	–	(318)	–	–	–	(318)
Balance at 31 December 2016	6,340	74,539	499	8,246	–	89,624
Impairment						
Balance at 1 January 2016	–	15,814	–	–	8,869	24,683
Balance at 31 December 2016	–	15,814	–	–	8,869	24,683
Carrying amount						
Balance at 31 December 2016	6,268	21,388	38	–	–	27,694

12. Property, plant and equipment (Continued)

Group	Buildings on leasehold land RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Renovation RMB'000	Construction-in-progress[(1)] RMB'000	Total RMB'000
2015						
Cost						
Balance at 1 January 2015	12,608	102,956	681	8,246	8,869	133,360
Additions	–	8,547	26	–	–	8,573
Disposals	–	(4,231)	–	–	–	(4,231)
Written off	–	–	(170)	–	–	(170)
Balance at 31 December 2015	12,608	107,272	537	8,246	8,869	137,532
Accumulated depreciation						
Balance at 1 January 2015	5,470	71,976	566	8,246	–	86,258
Depreciation	435	2,781	67	–	–	3,283
Disposals	–	(2,577)	–	–	–	(2,577)
Written off	–	–	(170)	–	–	(170)
Balance at 31 December 2015	5,905	72,180	463	8,246	–	86,794
Impairment						
Balance at 1 January 2015	–	17,468	–	–	8,869	26,337
Disposals	–	(1,654)	–	–	–	(1,654)
Balance at 31 December 2015	–	15,814	–	–	8,869	24,683
Carrying amount						
Balance at 31 December 2015	6,703	19,278	74	–	–	26,055

(1) This represents construction costs incurred for a piece of land in Wubao Industrial Zone, Shishi City, The PRC with land area totalling 16,235 sq m.

All property, plant and equipment held by the Group are located in the PRC.

Bank borrowings are secured on buildings on leasehold land of the Group with carrying amounts of RMB6,268,000 (2015: RMB6,703,000) (Note 24).

During the financial year ended 31 December 2016 and in consistent with the last financial year, depreciation expenses for plant and machineries amounting to RMB2,164,385 (2015: RMB1,033,000) was recognised as unallocated overhead in view of the decrease in demand of the Group's dyeing and post processing treatment services as compared to prior years. These unallocated overhead was recognised in other operating expenses.

In 2014, the Group carried out a review of the recoverable amount of its property, plant and equipment. An impairment loss of RMB17,468,000 was provided for plant and machinery due to significant decrease in demand of the Group's dyeing and post processing treatment services.

13. Land use rights

	Group RMB'000
Cost	
At 1 January 2015, 31 December 2015 and 31 December 2016	3,055
Accumulated amortisation	
At 1 January 2015	628
Amortisation for the year	61
At 31 December 2015	689
Amortisation for the year	61
At 31 December 2016	750
Carrying amount	
At 31 December 2016	2,305
At 31 December 2015	2,366

The Group has land use rights over this plot of land located in:

Location	Description	Area (sq. metres)	Tenure expiry date	Carrying amount RMB'000
Wubao Industrial Zone, Shishi City (I-III) 石狮市鸿山镇伍堡污染工业区 (I- III)	Land for industrial use	15,534.51	31/12/2056	2,305

The land use rights are held on leases for 50 years.

Bank borrowings are secured on the land use rights of the Group with carrying amounts of RMB2,305,000 (2015: RMB2,366,000) (Note 24).

14. Investment in subsidiaries

	Company	
	2016 RMB'000	2015 RMB'000
Unquoted equity shares, at cost	102,370	102,370
Allowance for impairment loss	(102,370)	(102,370)
	–	–

Movements in allowance for impairment loss are as follows:		
At 1 January	102,370	–
Charge for the financial year	–	102,370
At 31 December	102,370	102,370

14. Investment in subsidiaries (Continued)

The details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation/ operation	Cost of investment		Effective equity interest held by the Company		Principal activities
		2016	2015	2016	2015	
		RMB'000	RMB'000	%	%	
Held by the Company						
Simwa Holdings Ltd[1]	The British Virgin Islands	102,370	102,370	100%	100%	Investment holding
Held by Simwa Holdings Ltd						
Shishi Simwa Knitting & Dyeing Co., Ltd[1] 石狮市新华针织漂染有限公司	The People's Republic of China	20,000	20,000	100%	100%	Processing, dyeing and finishing of fabrics
Xiamen Sunny Dyeing and Printing Co., Ltd[1] 厦门新立印染有限公司	The People's Republic of China	10,000	10,000	100%	100%	Dormant

(1) All subsidiaries are audited by RT LLP for the purpose of expressing an opinion on the consolidated financial statements.

The recoverable amount of the investment in subsidiaries was based on fair value less costs of disposal. The Group had used the market approach where the expected selling price of the subsidiary was based on its estimated net assets at the end of the financial year. The key assumption for which the valuation was most sensitive was the estimation of the provision for compensation claim to certain customers (see disclosure below). The fair value is categorised under level 3 of the fair value hierarchy.

The allowance for impairment loss of investment in subsidiaries of RMBNIL (2015: RMB102,370,000) were recognised during the financial year.

For the financial year ended 31 December 2015, allowances for impairment loss was made in respect of three customers which filed notices of claims and requested compensation against the Company. As the subsidiaries of the Company were in a negative net tangible assets position due to the provision of compensation claim of approximately RMB470,475,000 recorded in the financial year ended 31 December 2015 made to three customers on 28 September 2016 as disclosed in Note 30(a), management has impaired the entire balance of investment in subsidiaries.

15. Amount due from/(to) a subsidiary

	Company	
	2016	**2015**
	RMB'000	**RMB'000**
Long-term loan account		
- Amount due from a subsidiary	79,898	79,898
- Allowances for impairment loss	(79,898)	(79,898)
	–	–
Current loan account		
- Amount due from a subsidiary	15,339	15,339
- Allowance for impairment loss	(10,543)	(10,543)
	4,796	4,796
- Amount due to a subsidiary	(4,796)	(4,796)

The amounts due from/(to) a subsidiary are denominated in Renminbi.

The amount due from a subsidiary on long-term loan account is an extension of the Company's net investment in the subsidiary. This is unsecured, interest-free and is not expected to be repaid within one year. As the Board views this as a net investment, with indeterminable repayments accordingly, management is of the view that fair valuation is not appropriate.

The amounts due from/(to) a subsidiary are unsecured, interest free and repayable on demand. These amounts approximate their fair values. As at the end of the reporting period, management has assess the recoverability of the amount due from a subsidiary which amount to approximately RMB15.3 million (2015: RMB15.3 million).

The allowances for impairment loss of long-term loan due from a subsidiary and current loan due from a subsidiary approximately RMB79,898,000 (2015: RMB79,898,000) and RMB10,543,000 (2015: RMB10,543,000) respectively were recognised during the financial year. Allowances for impairment loss was made in respect of three customers which filed notices of claims and requested compensation against the Company. As the subsidiaries of the Company were in a negative net tangible assets position due to the provision of compensation claim of approximately RMB470,475,000 recorded in the financial year ended 31 December 2015 as a result of the payment of compensation made to three customers on 28 September 2016 as disclosed in Note 30(a), management has impaired the entire balance of investment in subsidiaries.

16. Inventories

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Raw materials, at cost	564	816

17. Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
- Third parties	4,119	15,175	–	–
Other receivables	–	225	–	–
Total trade and other receivables	4,119	15,400	–	–

The average credit period on sale of goods is 108 days (2015: 71 days).

Trade and other receivables are denominated in Renminbi.

The carrying amount of the Group's trade receivables due from the Claimants as at 31 December 2016 amounted to RMBNil (2015: RMB4,477,000).

18. Prepayments

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	4,560	20,462	–	120

Included in prepayments is a payment of land use right over a plot of land measuring 16,235 sq. metres for industrial use located in Wubao Industrial Zone, Shishi City (2003-1-4) 石狮市鸿山镇伍堡污染工业区 (2003-1-4) (Note 13).

As at 31 December 2015, the certificate of land use right for the plot of land paid in 2008 with carrying value of approximately RMBNil (2015: RMB20,343,000) had not been obtained from relevant authorities since 2008.

On September 2016, the prepayment of RMB20,243,000 has been refunded in due course based on recent contract with the Land Bureau.

19. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash balances	3	2	–	–
Bank balances	657	250,125	5	23
Fixed deposits	–	200,000	–	–
	660	450,127	5	23

The effective interest rate of the cash and bank balances of the Group and the Company is 0.6% (2015: 0.6%) per annum. Interest rates reprice at intervals of one to three months.

The fixed deposits earned interest at 1.35% (2015:1.35%) per annum have maturity of 3 months.

19. Cash and cash equivalents (Continued)

The currency profiles of the Group's and Company's cash and cash equivalents as at 31 December are as follows:

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	633	450,078	–	–
Hong Kong dollar	22	22	–	–
Singapore dollar	5	27	5	23
	660	450,127	5	23

Cash and cash equivalents of RMB633,000 (2015: RMB450,078,000) held in People's Republic of China are subject to local exchange control regulation. These regulations places restriction on the amount of currency being exported other than through dividends.

20. Share capital

	Group and Company			
	2016	2015	2016	2015
	Number of ordinary shares with no par value		RMB'000	RMB'000
	'000	'000		
Authorised:				
At 1 January (US$100,000,000)	50,000	2,500,000	615,347	615,347
Share consolidation	–	(2,450,000)	–	–
At 31 December (US$100,000,000)	50,000	50,000	615,347	615,347

			2016	2015
			USD'000	USD'000
Issued and paid up:				
At 1 January	8,980	448,710	17,959	17,948
Issue of new ordinary shares pursuant to the equity-settled transactions	–	280	–	11
Share consolidation	–	(440,010)	–	–
At 31 December	8,980	8,980	17,959	17,959
Equivalent to RMB'000			135,773	135,773

Fully paid ordinary shares carry one vote per share and carry a right to receive dividends as and when declared by the Company.

During the financial year, the Company issued Nil (2015: 280,000) ordinary shares, free of payment, to an eligible director who has since resigned on 8 May 2015 as incentives pursuant to the Company's equity-settled transactions. The newly issued shares rank pari passu in all respects with the previously issued shares.

20. Share capital (Continued)

On 29 May 2015, the Company has completed a share consolidation exercise to consolidate every fifty ordinary shares in the capital of the Company held by the shareholders into one ordinary share, as to comply with the Minimum Trading Price ("MTP") requirement as implemented by the SGX-ST as an additional continuing listing requirement. The issued share capital of the Company as at 31 December 2015 comprises 8,979,791 consolidated shares, after disregarding any fraction of consolidated shares arising from the share consolidation exercise.

The holders of ordinary shares are entitled to receive dividends as and when declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

21. Treasury shares

	Group and Company			
	2016	2015	2016	2015
	Number of ordinary shares '000		USD'000	USD'000
Paid up:				
At 1 January	4	200	6	6
Share consolidation	–	(196)	–	–
At 31 December	4	4	6	6
Equivalent to RMB'000			35	35

On 29 May 2015, the Company completed its share consolidation exercise to consolidate every fifty ordinary shares in the capital of the Company held by the shareholders into one ordinary share, as to comply with the Minimum Trading Price ("MTP") requirement as implemented by the SGX-ST as an additional continuing listing requirement. The issued share capital of the Company as at 31 December 2015 comprises 8,979,791 consolidated shares, after disregarding any fraction of consolidated shares arising from the share consolidation exercise.

The Company acquired 100,000 of its own shares through purchases on SGX in 2012 and in 2014. The total amount paid to acquire the shares was RMB35,000 and has been deducted from shareholders' equity.

22. Other reserves

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium	79,908	79,908	79,908	79,908
Capital reserve	4,403	4,403	–	–
Statutory reserve	15,000	15,000	–	–
Merger reserve	(102,287)	(102,287)	–	–
	(2,976)	(2,976)	79,908	79,908

(i) Share premium

The share premium represents the excess of issue price over the par value of the shares issued, net of share issue expenses.

22. Other reserves (Continued)

(ii) Capital reserve

The capital reserve represents the premium arising from the issue of shares prior to 31 December 2003.

(iii) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profits after income taxes prepared in accordance with the accounting regulation of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC relevant authority, and are not available for dividend distribution to the shareholders.

(iv) Merger reserve

The merger reserve represents the difference between the nominal value of shares issued by the Company in exchange for the nominal value of shares and capital reserve of subsidiaries acquired which is accounted for using the pooling-of-interest method.

23. Trade and other payables

Provision for compensation

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade payables				
- Third parties	506	2,202	–	–
- A related party	–	133	–	–
	506	2,335	–	–
Value added tax payable	103	277	–	–
Accrued operating expenses	5,012	5,785	1,388	874
Other payables	1,722	31	1,711	412
Total trade and other payables	7,343	8,428	3,099	1,286
Add: Provision for compensation claims	–	470,475	–	–
	7,343	478,903	3,099	1,286
Add: Borrowings (Note 24)	12,900	12,900	–	–
Less: Provision for compensation claims	–	(470,475)	–	–
Financial liabilities at amortised cost	20,243	21,328	3,099	1,286

The amounts due to a related party are unsecured, interest-free and repayable on demand.

The average credit period on purchases of goods is 68 days (2015: 41 days).

No interest is charged on the trade and other payables.

As announced on 29 September 2016, and as disclosed in Note 30(a), the Group paid a total compensation amount of RMB465,998,097 to the Claimants namely晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司 on 28 September 2016.

23. Trade and other payables (Continued)

Provision for compensation (Continued)

Arising from these payments, the Group has provided a provision for compensation claims amounting to RMBNil as at 31 December 2016 (2015: RMB470,475,000). The estimates provision for compensation claims was based on the demand notice received from the claimants and testing on products processed by the Company. It is noted that the alleged de-colouring issue is existed according to the testing report about re-conducting the testing on products processed by the Company and assessment report in relation to the Claim issued by a professional firm. The settlement and compensation were settled subsequently by netting off against the compensation claim made to Claimants on 28 September 2016.

Movement in provision for compensation claims are as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Balance at beginning of financial year	470,475	–
Add : Provision for compensation claims	–	470,475
Less: Settlement for compensation claims	(470,475)	–
Balance at end of the financial year	–	470,475

The currency profiles of the Group's and Company's trade and other payables as at 31 December are as follows:

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	4,319	477,692	75	75
Singapore dollar	3,024	1,211	3,024	1,211
	7,343	478,903	3,099	1,286

The carrying amounts of accruals and other payables approximate their fair values.

24. Bank borrowings

	Group	
	2016	2015
	RMB'000	RMB'000
Secured bank loans - #1 Rural Commercial Bank of Shishi 石狮市石狮农村商业银行	7,900	7,900
- #2 Agricultural Bank of China 中国农业银行石狮市支行鸿山分理处	5,000	5,000
	12,900	12,900
Amount due for settlement within 12 months	12,900	12,900

The Group's bank loans are secured by the Group's buildings on leasehold land, land use rights (Note 12 and 13).

24. Bank borrowings (Continued)

The average effective borrowing rates range from 5.98% to 6.69% (2015: 6.33% to 6.69%) per annum. The carrying amounts of the Group's and Company's borrowings approximate their fair values.

The bank loans are denominated in Renminbi.

(a) The bank loans #1 of RMB4,400,000 and RMB3,500,000 granted to the Group matures on 5 September 2017 and 8 August 2017 respectively (2015: 14 September 2016 and 17 August 2016 respectively). Interests are charged at 5.98% (2015: 6.33% and 6.47% respectively) per annum.

(b) The bank loan #2 of RMB5,000,000 granted to the Group matures on 22 March 2017 (2015: 1 April 2016). Interest is charged at 6.69% (2015: 7.50%) per annum.

25. Significant related party transactions

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The effect of the Group's and Company's transactions and arrangements are with related parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

25. Significant related party transactions (Continued)

During the year, the Group entered into the following transactions with related parties:

	Group	
	2016	2015
	RMB'000	RMB'000
<u>Related party</u>		
Purchases of packaging materials	–	1,176
Wastewater treatment services	–	2,130

Compensation of directors and key management personnel remuneration

The remuneration of directors and other members of key management during the financial year are as follows:

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits	1,275	1,428	430	381
Share-based payments	–	69	–	69
	1,275	1,497	430	450

Included in the key management personnel's remuneration are costs of defined contribution plans for the Group amounting to RMB98,000 (2015: RMB118,000).

26. Operating segments

<u>Business segment</u>

As the Group operates principally in a single business segment which is the provision of dyeing and post-processing treatment services for fabrics, no reporting by business operations is presented.

<u>Geographical segment</u>

As the business of the Group is engaged entirely in the PRC, no reporting by geographical location of operations is presented.

27. Financial instruments

(a) Categories of financial instruments

Financial instruments at their carrying amounts at the end of the reporting period are as follows:

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loan and receivables	5,779	465,527	4,801	4,819
Financial liabilities				
At amortised cost	20,243	21,328	7,995	6,082

27. Financial instruments (Continued)

(b) Financial risk management

The Group's activities expose it to credit risks, market risks (including foreign currency risks and interest rate risks) and liquidity risks. The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

There have been no changes to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

Credit risks

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group performs ongoing credit evaluation of its counterparties' financial condition and generally does not require a collateral.

The Group's trade receivables comprise 5 debtors (2015: 10 debtors) that represented more than 60% (2015: 87%) of the total trade receivables.

The Group's and Company's major classes of financial assets are cash and bank balances and trade and other receivables.

Bank deposits are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The Group's concentration of credit risk by geographical locations is mainly at the PRC, which account for 100% (2015: 100%) of the total trade receivables as at year end.

Trade and other receivables that are neither past due nor impaired are substantially companies with good collection track record with the Group.

The age analysis of trade receivables is as follows:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Not past due	1,672	12,397
Past due over 30 days	1,798	1,141
Past due over 60 days	649	1,637
	4,119	15,175

27. Financial instruments (Continued)

(b) Financial risk management (Continued)

Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risks

The Group transacts business in various foreign currencies, including Hong Kong dollar and Singapore dollar, other than the respective functional currency of the Group entities, and hence is exposed to foreign currency risks.

At present, the Group does not have any formal policy for hedging against exchange exposure.

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency of PRC is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through authorised financial institutions.

The carrying amounts of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities as at the end of the financial year are as follows:

	Group		Company	
	Hong Kong dollar	Singapore dollar	Hong Kong dollar	Singapore dollar
	RMB'000	RMB'000	RMB'000	RMB'000
2016				
Cash and cash equivalents	22	5	–	5
Trade and other payables	–	(3,099)	–	(3,099)
	22	(3,094)	–	(3,094)
2015				
Cash and cash equivalents	39	147	–	23
Trade and other payables	–	(1,211)	–	(1,211)
	39	(1,064)	–	(1,188)

Foreign currency sensitivity analysis

The Group is mainly exposed to Singapore dollar (SGD).

The following table details the Group's sensitivity to a 10% change in SGD against the respective functional currencies of the Group entities. The sensitivity analysis assumes an instantaneous 10% change in the foreign currency exchange rates from the end of the financial year, with all variables held constant.

	Increase/(Decrease)			
	Group		Company	
	Profit/(Loss) before tax			
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
SGD				
Strengthens against RMB	(4)	(106)	–	(119)
Weakens against RMB	4	106	–	119

27. Financial instruments (Continued)

(b) Financial risk management (Continued)

Market risks (Continued)

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risks relate to interest bearing liabilities and interest bearing assets.

The Group's policy is to maintain an efficient and optimal interest cost structure using a combination of fixed and variable rate debts, and long and short term borrowings.

The Group's interest rate risks arise primarily from the fixed rate borrowings which are repriced every 3 months and fixed deposits with financial institutions.

The Group does not expect any significant effect on the Group's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the end of the financial year.

Liquidity risks

Liquidity risks refer to the risks in which the Group encounters difficulties in meeting its short-term obligations. Liquidity risks are managed by matching the payment and receipt cycle.

The following table details the Group's remaining contractual maturity for its non-derivative financial instruments. The table has been drawn up based on undiscounted cash flows of financial instruments based on the earlier of the contractual date or when the Group is expected to receive or (pay). The table includes both interest and principal cash flows.

	Less than 1 year RMB'000
Group	
Undiscounted Financial Assets	
Cash and bank balances	660
Trade and other receivables	4,119
As at 31 December 2016	4,779
Cash and bank balances	450,127
Trade and other receivables	15,400
As at 31 December 2015	465,527
Undiscounted Financial Liabilities	
Trade and other payables	7,343
Bank borrowings	12,900
As at 31 December 2016	20,243
Trade and other payables	8,428
Bank borrowings	12,900
As at 31 December 2015	21,328

27. Financial instruments (Continued)

(b) Financial risk management (Continued)

Liquidity risks (Continued)

	Less than 1 year RMB'000
Company	
Undiscounted Financial Assets	
Cash and bank balances	5
Amount due from a subsidiary	4,796
As at 31 December 2016	4,801
Cash and bank balances	23
Amount due from a subsidiary	4,796
As at 31 December 2015	4,819
Undiscounted Financial Liabilities	
Trade and other payables	3,099
Amount due to a subsidiary	4,896
As at 31 December 2016	7,995
Trade and other payables	1,286
Amount due to a subsidiary	4,796
As at 31 December 2015	6,082

As of 31 December 2016, the Group and Company were in net current liability position of RMB10,340 (2015: net current liability of RMB5,175,000) and RMB3,194,000 (2015: net current liability of RMB1,143,000). Management is of the view that the liquidity risk is limited as the Group and Company could raise funds through issuance of capital or through additional bank borrowings if necessary.

28. Fair value of assets and liabilities

The carrying amounts of the assets and liabilities, including cash and cash equivalents, trade and other receivables and payables, approximate their respective fair values. The fair values of other classes of assets and liabilities are disclosed in the respective notes to the financial statements.

Fair value hierarchy

The Group does not hold assets nor liabilities carried at valuation. Accordingly, the disclosure requirements of the fair value hierarchy (Level 1, 2 and 3) under FRS 107 *Financial Instruments: Disclosures* do not apply.

29. Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern and maintains an optimal capital structure so as to maximise shareholder value.

The Group's management reviews the capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Upon review, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from 2014.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 24 and equity attributable to owners of the company, comprising of issued capital, reserves as disclosed in Notes 20, 21 and 22.

As disclosed in Note 22, a subsidiary of the Group is required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities.

The review of the Group's capital risk management policies and objectives is conducted by the Audit Committee and the Board of Directors.

The Group and the Company are in compliance with externally imposed capital requirements for the financial years ended 31 December 2016 and 2015.

The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables, provision for compensation and amount due to a subsidiary less cash and cash equivalents and amount due from a subsidiary.

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt	19,583	41,676	3,094	1,263
Total equity	19,659	23,246	(3,194)	(1,143)
Gearing ratio	100%	179%	(97%)	(110%)

30. Significant events during the financial year

(a) Payment of compensation claims

On 30 November 2015, the Board of Directors ("the Board") announced that the Company's wholly-owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd (石狮新华针织漂染有限公司) has received notices from three customers on 25 November 2015 and 26 November 2015 alleging that they have suffered substantial damages and financial losses due to the products processed by the Company's subsidiary not meeting the specific requirements, resulting in de-colouring in their end-products.

Subsequently, on 08 April 2016, the Board made an announcement to provide an update on these potential claims by customers that the Company had met up with the Claimants once in early December 2015 after receiving the written notice on the claims for products delivered in 2014 and early 2015. The Company and the Claimants have agreed to conduct an investigation into the claims and an independent test on products processed by the Company is to be carried out to verify the allegation. With the presence of both the Company and the Claimants, samples of required colours have been selected and sent to independent third parties, CNTAC Testing Center (中国纺织工业联合会检测中心) and SGS-CSTC Standards Technical Services Co.,Ltd. (SGS通标标准技术服务有限公司) for testing on 21 March 2016.

30. Significant events during the financial year (Continued)

(a) Payment of compensation claims (Continued)

On 19 July 2016, the Board announced that the Company had received further notices from three customers on 18 July 2016. It is noted that the alleged economic loss incurred from the Claimants, 晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司 are RMB205,346,020 based on 418,220 items of clothing, RMB132,362,307 based on 269,577 items of clothing and RMB128,339,053 based on 261,383 items of clothing respectively, in which the total compensation amount is RMB466,047,380, as stated in the said notices. Each of the Claimants have requested the Company to settle the compensation claims by 31 July 2016. The Management stated they will be engaging a reputable law firm to handle the claim and establish the facts surrounding their allegations and take steps to verify their claims. The Management will report to the Board on the status and development of the claims and will not admit liability nor agree to any form of compensation before consulting and seeking the Board's approval.

On 5 August 2016, the Company announced that no payment is made to Claimants in relation to the potential claims announced on 30 November 2015 and 19 July 2016, in which each of the Claimants have requested the Company to settle the compensation claims by 31 July 2016.

On 28 September 2016, the Board announced an update on the potential claims by customers. The Board announced that the Company had received further notices from three customers on 26 September 2016. It is noted that each of the Claimants have requested the Company to settle the compensation claims by 28 September 2016. Subsequent to receiving notices from the Claimants on 18 July 2016, the Company and the Claimants have agreed to conduct another testing on products processed by the Company. It is noted that the alleged de-colouring issue is existed according to the testing report about re-conducting the testing on products processed by the Company and assessment report in relation to the Claim issued by a professional firm. If compensation payment is not made by 28 September 2016, the Company shall pay the alleged economic loss incurred by the Claimants and interest expenses on outstanding amounts owing to the Claimants.

On 29 September 2016, the Board made announcement on the update on the potential claims by customers. The Board announced that the finance manager, Zhang Dufang, of the Company's wholly-owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd (石狮市新华针织漂染有限公司) informed the senior finance manager, Mr. Mak Chi Shing ("Mr. Mak") via email on 29 September 2016 morning that the payment of compensation has been made to the Claimants on 28 September 2016 afternoon. It is noted the Claimants have requested the Company to settle the compensation claims by 28 September 2016, which was highlighted by Mr. Wu to the independent director, Mr. Low Wai Cheong ("Mr. Low") and Mr. Mak during a teleconference on 27 September 2016. It is noted that the said payment was approved by Mr. Wu and the non-executive and non-independent director, Mr. Wu Dezhi in order to avoid further compensation and interest claimed by the Claimants. This was done without the knowledge of Mr. Mak and without the knowledge or approval of Mr. Low.

Mr. Low and Mr. Mak would like to highlight that the resolution of abovementioned payment to the Claimants was not proposed to the Board for voting and the abovementioned payment was not approved during the teleconference on 27 September 2016.

During the said teleconference on 27 September 2016, Mr. Low and Mr. Mak have requested the executive chairman and CEO of the Company, Mr. Wu Xinhua ("Mr. Wu") to engage a reputable law firm to handle the claim and establish the facts surrounding their allegations and take steps to verify their claims. The independent director and the senior finance manager have also requested the executive chairman and CEO of the Company not to admit liability nor agree to any form of compensation before consulting and seeking the Board's approval.

On 29 September 2016, the Group paid a total compensation amount of RMB465,998,097 after netting off against the trade receivables amounting to RMB4,476,733 to the Claimants namely, 晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司.

30. Significant events during the financial year (Continued)

(b) Refund of prepayment in relation to acquisition of land use rights

On 22 April 2008, Shishi Simwa Knitting and Dyeing Co., Ltd, a subsidiary of the Company, entered into a land use right purchase agreement with the Land Bureau for the acquisition of a piece of land measuring 16,235 square metres located in Wubao Industrial Zone for a consideration of approximately RMB18,672,000 with other associated costs of approximately RMB1,671,000 charged by the local authorities. On 5 May 2008, Shishi City Government issued an approval for the acquisition of the said land by Shishi Simwa. The certificate of the land use rights has not yet been issued by the Land Bureau since 2008. The land was acquired for the purpose of constructing a new plant and facilities. Owing to the global economic crisis and economic slowdown in China, the construction of new plant was cancelled.

Based on the recent contact with the Land Bureau, the said land will be no longer suitable for constructing a new plant for fabric dyeing operation due to environment protection planning by the local government. Therefore, the Prepayment has been refunded by the Land Bureau on September 2016.

(c) Remain suspended the trading of the Company shares

Since 31 November 2015, the trading of the Company shares has been suspended due to the uncertainties surrounding the claims from three customers, trading of the Company shares will continue to be suspended until further notice to ensure a fair, orderly and transparent market. As at 31 December 2016, the trading of the Company shares is remain suspended.

31. Events after the reporting period

(a) Temporarily shutdown of operation

On 3 April 2017, the Company has made an announcement that the operation of its wholly owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd has been downsizing and temporarily shut down for few days due to non-compliance of sewage treatment regulation and sewage disposal without treatment made by its sewage treatment service provider, Shishi City Haitian Environmental Engineering Co., Ltd. (石狮市海天环境工程有限公司) ("Haitian").

Owing to non-compliance of environmental protection and sewage treatment regulation in Shishi by Haitian, Haitian was penalized by the local authority and output of sewage from all dyeing companies in the Wubao Industrial Zone has been restricted and closely monitored by the relevant authorities. Therefore, the capacity of sewage treatment service provided to the Subsidiary has been reduced to 400 tonnes per day, which is far below the breakeven position of the Subsidiary's operation. Hence, the management decided to downsize and temporarily shut down the operation of its Subsidiary for few days in order to avoid further loss.

Haitian has met the relevant regulations in Shishi on 2017. The operation of the Subsidiary was resumed upon compliance of relevant regulations by Haitian on second quarter in year 2017.

(b) Signed Memorandum of Understanding ("MOU") to establish a strategic partnership

On 31 October 2017 and 3 November 2017, the Company has announced the Company has entered a Memorandum of Understanding ("MOU") with Sichuan Dingneng Construction (Group) Co., Ltd ("Dingneng Group") and China Capital Investment Group ("CCIG") according to form a tripartite consortium made up of a State-owned Enterprise (SOE) and a Provincial-owned Enterprise (POE) with a SGX listed company to invest, build and manage government infrastructure projects.

According to signed MOU, the Company and Dingneng Group will explore an exclusive strategic partnership where Dingneng Group will appoint the Company as their exclusive Singapore partner for their foreign investment and financing solutions while the Company will tap on Dingneng Group's China strategic relationship, network and business contacts to seek investment opportunities.

31. Events after the reporting period (Continued)

(b) Signed Memorandum of Understanding ("MOU") to establish a strategic partnership (Continued)

On the other hand, the Company and CCIG will explore a strategic partnership to jointly manage the capital, investment and Build-Operate-Transfer government infrastructure projects through Public Private Partnership structure where local government may be involved.

(c) Resumption of trading proposal

On 13 December 2017 and 18 January 2018, the Company had submitted an application to the Singapore Exchange Regulation Pte. Ltd. ("SGX Regulation") to lift the voluntary trading suspension of its shares. In support of the application, the Board had proposed the Resumption of Trading Proposal comprising the course of actions including (i) engage a special audit to conduct investigation on transactions with and the net compensations claims paid to the three Claimants, (ii) implement share split to enlarge the issued share capital of the Company, (iii) allot and issue an aggregate of 50,000,001 new shares (the "Placement Shares") and (iv) diversify from its existing business of manufacturing to include infrastructure investment.

On 23 February 2018, the Company has received a letter from the SGX Regulation in connection with the Resumption of Trading Proposal. The SGX Regulation had no objection to the Resumption of Trading Proposal subject to the Company able to completed a list of requirement and commitment made by the Company.

(d) Changes in name of the Company

On 7 May 2018, the Company has announced that the Company has proposed the name of the Company be changed from "China Fibretech Ltd." to "Raffles Infrastructure Holdings Limited". With the proposed Business Diversification, the Board believes that the changes in name of the Company will be beneficial to the Company as it better reflects the profile and business of the Company going forward.

No further update as at date of this report.

(e) Placement of 50,000,001 new ordinary shares

On 7 May 2018, the Company has made an announcement that the Company had entered into subscription agreements with (i) China Capital Investment Group, (ii) Asia Hausse Investments Pte. Ltd., Newsome Holdings Limited and Dr. Carol Choong, and (iii) Wayman Holdings Limited and Mdm. Su Wan Ru on 28 March 2018, 24 April 2018 and 25 April 2018 respectively.

The Company has agreed to allot and issue and each subscriber has agreed to subscribe and pay for an aggregate of 50,000,001 new ordinary shares in the capital of the Company (the "New Share")representing 73.58% of the Company's existing enlarged share capital, at an issue price of S$0.60 for each New Share, subjected to and upon the terms and conditions of the Subscription Agreements. The placement will increase the issued and paid-up share capital of the Company to 67,951,583 ordinary shares in the capital of the Company.

No further update on the completion of the placement as at date of this report.

(f) Investment in Bo Dao Road Construction Co., Ltd.

On 7 May 2018, the Company has announced that the Company has on 28 March 2018 entered into a framework investment and cooperation agreement (the "Agreement") with Yibin Highway & Bridge Construction Co., Ltd ("Yibin H&B"), being a majority owned subsidiary of the Ding Neng Group and the representative of the existing equity holders (the "Existing Equity Holders") of Bo Dao Road Construction Co., Ltd (the "Target Company"), pursuant to which the Company or its subsidiary, has agreed to invest RMB 100 million and such subsidiary will obtain an aggregate of 90.91% equity stake in the Target Company (the "Proposed Investment"). Yibin H&B is 96.50% owned by Ding Neng Group and 3.50% owned by the Yibin City government. The investment is in line with the Group's strategic direction to expand its business to include investment in infrastructure projects.

32. Comparative figures

The independent auditor's report dated 20 December 2016 contains a disclaimer of opinion on the financial statements for the financial year ended 31 December 2015. Below is the extract of the basis for disclaimer of opinion.

Extracted from auditor's report for the financial year ended 31 December 2015

Basis for Disclaimer of Opinion

(a) Opening balances

We were appointed as auditors on 30 November 2015 and were unable to obtain sufficient appropriate audit evidence in respect of the opening balances of the Group's property, plant and equipment, land use rights, inventories, trade and other receivables, prepayments, cash and cash equivalents, trade and other payables, bank borrowings, income tax payables and the Company's investment in subsidiaries, amount due from a subsidiary and amount due to a subsidiaries on 1 January 2015.

Since the opening balances as at 1 January 2015 are entered into the determination of the financial position of the Group and of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 31 December 2015, we are unable to determine whether adjustments, if any, might have been found to be necessary in respect of the Group's and the Company's financial statements for the financial year ended 31 December 2015.

Our opinion on the current financial year's financial statements of the Group and the statement of financial position and statement of changes in equity of the Company is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

(b) Compensation claims by three customers

As disclosed in Note 32(a), on 30 November 2015, the Company's wholly-owned subsidiary, Shishi Simwa Knitting & Dyeing Co., Ltd (石狮市新华针织漂染有限公司) first received notices from its three existing customers ("Claimants") on 25 November 2015 and 26 November 2015 alleging that they had suffered substantial damages and financial losses due to the products processed by that subsidiary for not meeting their specified requirements, resulting in de-colouration of their end-products (the "Claims"). It was noted that the said notices did not contain quantification of the alleged losses incurred. These Claims were for products delivered in 2014 and early 2015.

The matters relating to the compensations were disclosed by the Company in their announcements on the Singapore Exchange dated 8 April 2016, 19 July 2016, 27 September 2016, and 29 September 2016.

Arising from the payment of compensation on 28 September 2016 as announced on 29 September 2016 Note 32(a), management has made a provision for compensation claims as at 31 December which amounted to RMB470,475,000 as disclosed in Note 24 to the financial statements. We have not been able to verify the quantum of the payment as well as the parties to which the payments had allegedly been made.

We were unable to verify the matters mentioned in the above announcements. We have not been provided with or able to obtain any independent evidence that would be sufficient and appropriate for our audit purposes to conclude on the Claims, their validity and their accounting treatment and disclosures. Consequently, we are not able to determine if the Claims should be accounted for as provision for compensation and neither were we able to verify on the Company's obligation to pay. Accordingly, we are unable to conclude on the nature and quantum of the provision and disclosure.

32. Comparative figures (Continued)

Extracted from auditor's report for the financial year ended 31 December 2015 (Continued)

Basis for Disclaimer of Opinion (Continued)

(c) Bank confirmation

The management had not allowed for certain audit procedures to be performed and there were no acceptable alternatives to these procedures. Consequently, we were unable to carry out our audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence and the quantum of the bank balances in the current account and fixed deposits account amounting to RMB250,125,000 and RMB200,000,000 respectively (see Note 20) as at 31 December 2015. In addition, we were also unable to determine the existence, quantum and completeness of the bank borrowings, which amounted to RMB12,900,000 (see Note 25) as at 31 December 2015.

Further, as disclosed in Note 25(a) & (b) to the financial statements, the bank borrowings of RMB4,400,000, RMB3,500,000 and RMB5,000,000 granted to the Group have matured on 14 September 2016, 17 August 2016 and 1 April 2016 respectively. We have not been provided with any supporting documents with respect to the settlement of these borrowings. Consequently, we were unable to establish whether these loans have been fully settled at their maturity date.

(d) Going concern

As disclosed in Note 1.2 to the financial statements, as at 31 December 2015, the Group's current liabilities exceeded current assets by RMB5,175,000. In addition, the Group incurred a net loss of approximately RMB464,497,000 for the financial year ended 31 December 2015.

As disclosed in Note 32(a), and as noted in our report above (Point 2), the Group paid a total compensation amount of RMB465,998,000 after netting off against the trade receivables amounting to RMB4,477,000 to the Claimants namely, 晋江市滨浪制衣织造有限公司, 石狮市爱利奴服饰有限公司 and 石狮市金太屋纺织服饰有限公司.

Accordingly, the Group's cash and cash equivalents of approximately RMB450 million (Note 20) as at 31 December 2015 have been substantially depleted due to the above compensation on 28 September 2016. This has created a material uncertainty with respect to cash flow management that may cast significant doubt over the Group's and the Company's ability to continue as a going concern.

As disclosed in Note 1.2 to the financial statements, the directors have prepared these financial statements on a going concern basis. Based on the limited information about the Group and of the Company made available to us, we were unable to perform alternative procedures to determine the appropriateness of the use of the going concern assumption.

(e) Prepayment of land use rights

As disclosed in Note 19 to the financial statements, included in prepayments is a payment of land use right over a plot of land measuring 16,235 square metres located at Wubao Industrial Zone, Shishi City (2003-1-4) 石狮市鸿山镇伍堡污染工业区 (2003-1-4). This was paid in 2008 with carrying value of approximately RMB20,343,000 (2014: RMB20,343,000) to the Land Bureau of Shishi Municipal Government (the "Land Bureau"). This certificate of the land use rights has not yet been issued by the Land Bureau since 2008. On 19 August 2016, the Company announced on the Singapore Exchange that the prepayment of RMB20,343,000 will be refunded in due course based on recent contract with the Land Bureau.

As we had not been furnished by the Company with any of the supporting documents with respect to the refund from the Land Bureau, nor had we been able to obtain information or perform any alternative procedures with respect to the land use rights, accordingly, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity and existence of this prepayment.

32. Comparative figures (Continued)

Extracted from auditor's report for the financial year ended 31 December 2015 (Continued)

Basis for Disclaimer of Opinion (Continued)

(f) Investment in subsidiaries and amount due from a subsidiary

In view of the compensation claims paid to the three customers as noted in our report above (point 2) and as disclosed in Note 32(a), the Company has recognised an impairment loss on investment in subsidiaries and amount due from a subsidiary amounting to RMB102,370,000 (Note 15) and RMB90,441,000 (Note 16) respectively. We are unable to assess the basis of impairment loss made by the management. Consequently, we were unable to perform any alternative audit procedures to assess the appropriateness and the quantum of the impairment loss made on the investment in subsidiaries and amount due from a subsidiary.

(g) Property, plant and equipment and land use rights

As at 31 December 2015, the Group's carrying values of property, plant and equipment and land use right amounted to RMB26,055,000 and RMB2,366,000 respectively. As disclosed in Note 25 to the financial statements, the bank borrowings are secured by the Group's buildings on leasehold land (Note 12) and land use rights (Note 13) with carrying amounts of RMB6,703,000 and RMB2,366,000 respectively.

In reference to our Point 3 in our report above, we were not able to perform audit procedures relating to bank balances and borrowings. Consequently, we were unable to verify the ownership or collateralisation of the buildings on leasehold land and land use rights. The Company has informed us that the title deed is being held by the bank as collateral.

In addition, management has also not determined the recoverable amount of, nor assessed for any allowance for impairment of the property, plant and equipment and land use rights. Consequently, we were also unable to perform alternative audit procedures to assess the appropriateness of the carrying amount of the property, plant and equipment and land use rights.

(h) Trade receivables

As stated in Note 18 to the financial statements, the Group's trade receivables include balances due from the Claimants. No allowances for impairment loss of trade receivables was made in respect of the three customers which filed notices of claims against the Company as the amount due from Claimants were subsequently settled by netting off against the compensation claim made to the Claimants on 28 September 2016.

We were unable to obtain independent audit confirmations of the balances due to the Group from the Claimants as at 31 December 2015 as the Company had not allowed us to circulate the audit confirmations to the Claimants.

Accordingly, in view of the limitation of scope imposed by the Company, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the carrying amount of RMB4,477,000 due from the Claimants as at 31 December 2015 was fairly stated nor are we able to satisfy ourselves as to the validity and existence of those Claimants.

(i) Inventories

As at 31 December 2015, the Group's inventories had a carrying value of RMB816,000 (Note 17). We were unable to obtain any sufficient appropriate supporting documents, information and explanations we considered necessary to ascertain if the inventories were properly carried at the lower of its cost and its net realisable value due to management imposed limitation of scope.

32. Comparative figures (Continued)

Extracted from auditor's report for the financial year ended 31 December 2015 (Continued)

Basis for Disclaimer of Opinion (Continued)

(j) Tax provision

In view of the above matters mentioned in Basis for Disclaimer of Opinion, we were unable to determine the consequential tax impact arising from any necessary and consequential adjustments and the appropriateness and completeness of disclosures made in the financial statements for the financial year ended 31 December 2016.

(k) Events occurring after the reporting period

We were unable to complete all our audit procedures for our events occurring after the reporting period, which we considered necessary to satisfy ourselves on the significant matters occurring after the reporting period with respect to items recorded or unrecorded as at 31 December 2016. Accordingly, in view of the limitation of scope imposed by the Company, we were unable to determine whether all significant subsequent events have been adequately dealt with in these financial statements (see Note 32) with respect to disclosures, presentation and adjusting subsequent events.

33. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 8 June 2018.

STATISTICS OF SHAREHOLDINGS

As at 15 August 2018

Number of Issued Shares excluding Treasury Shares	:	8,975,791
Number of Treasury Shares	:	4,000
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	117	16.62	4,203	0.05
100 – 1,000	254	36.08	146,940	1.64
1,001 - 10,000	275	39.06	980,440	10.92
10,001 - 1,000,000	57	8.10	3,264,604	36.37
1,000,001 AND ABOVE	1	0.14	4,579,604	51.02
TOTAL	**704**	**100.00**	**8,975,791**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	PHILLIP SECURITIES PTE LTD	4,579,604	51.02
2	SOLIGNY BRUNO LUDOVIC	519,004	5.78
3	RHB SECURITIES SINGAPORE PTE. LTD.	326,675	3.64
4	CITIBANK NOMINEES SINGAPORE PTE LTD	257,891	2.87
5	OCBC SECURITIES PRIVATE LIMITED	227,720	2.54
6	LEE GUAN HUAT	201,800	2.25
7	PU WEIDONG	109,200	1.22
8	NA CHING CHING, LINDA (LAN QINGQING,LINDA)	101,202	1.13
9	WONG POH HWA @ KWAI SENG	90,000	1.00
10	GOODMARKS PTE LTD	89,400	1.00
11	WONG CHI KWAN BETTY MRS WONG CHI KWAN BETTY	88,980	0.99
12	OAPT (LING KIM CHYE - B828/2017)	81,400	0.91
13	ADDISON GOH SIONG HOON (ADDISON WU XIANGYUN)	63,000	0.70
14	LAN LONG CHUN	60,540	0.67
15	JAMES WONG YOW KWONG	53,500	0.60
16	ESTATE OF TAN KAH SOO, DECEASED	49,040	0.55
17	UOB KAY HIAN PRIVATE LIMITED	46,000	0.51
18	TAN WEE KEE	45,000	0.50
19	GAN YOK LIAN	42,000	0.47
20	ESTATE OF BOON KOK HUP, DECEASED	41,400	0.46
	TOTAL	**7,073,356**	**78.81**

STATISTICS OF SHAREHOLDINGS

As at 15 August 2018

SUBSTANTIAL SHAREHOLDERS

	NO. OF SHARES		
NAME	**DIRECT INTERESTS**	**DEEMED INTERESTS**	**%**
Wellgain International Holdings Limited	4,522,093	–	50.38
Wu Xinhua	–	4,522,093	50.38
Soligny Bruno Ludovic	519,004	–	5.78

Note:

Wu Xinhua is the legal and beneficial owner of all the issued and paid-up share capital of Wellgain International Holdings Limited ("Wellgain"). Accordingly, he is deemed interested in the 4,522,093 shares held by Wellgain. Wellgain's interests in the 4,522,093 shares are held by Philip Securities Pte Ltd as nominee.

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 15 August 2018, 43.73% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Fibretech Ltd. (the "Company") will be held at Chinese Swimming Club, 21 / 34, Amber Road, Singapore 439870, on Wednesday, 19 September 2018 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2016 together with the Independent Auditor's Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of S$125,350.00 for the financial year ended 31 December 2017 (2016: S$60,000). **(Resolution 2)**

3. To re-elect Mr Choo Han Kiat, Eric who retires by rotation pursuant to the Bye-law 86 of the Company and who, being eligible, will offer himself for re-election. **(Resolution 3)**

4. To re-elect Mr Toh Hai Joo, a Director retiring pursuant to the Bye-law 85(6) of the Company and who, being eligible, will offer himself for re-election. **(Resolution 4)**

   [See Explanatory Note (1)]

5. To re-appoint Messrs RT LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6. To transact any other ordinary business that may properly be transacted at an annual general meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

7. **Authority to issue shares and convertible securities** **(Resolution 6)**

   "That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares of the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the directors may in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the directors while this Resolution was in force,

   provided that:

   (1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50 per cent. of the total number of issued shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20 per cent. of the total number of issued shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue or consolidation or subdivision of shares,

and, in sub-paragraph (1) above and this sub-paragraph (2), "subsidiary holdings" has the meaning given to it in the Listing Manual of the SGX-ST;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the Monetary Authority of Singapore) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

(See Explanatory Note (2))

8. **China Fibretech Share Award Scheme** **(Resolution 7)**

That the Directors of the Company be and are hereby authorised to grant awards of fully-paid ordinary shares in the capital of the Company ("**Awards**") in accordance with the provisions of the China Fibretech Share Award Scheme set out in the Company's Circular to Shareholders dated 9 April 2009 (the "**Scheme**"), and to allot, issue, transfer and/or deliver from time to time such number of fully-paid ordinary shares in the capital of the Company as may be required to be issued or delivered pursuant to the vesting of Awards under the Scheme, provided that the aggregate number of shares to be issued or delivered pursuant to the Scheme and pursuant to all other share option or other share schemes of the Company shall not exceed 15 per cent of the total number of issued shares (excluding treasury shares) in the capital of the Company at any time and from time to time.

[See Explanatory Note (3)]

BY ORDER OF THE BOARD

Lee Wei Hsiung
Company Secretary

Singapore, 28 August 2018

Explanatory Notes:

(1) Mr Toh Hai Joo will, upon re-election as a Director of the Company, remain as a member of the Audit, Nominating and Remuneration Committees. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.

The Directors who have offered themselves for re-election have each confirmed that, they do not have any relationship (including immediate family relationships) with the other Directors, the Company or its 10% shareholders. The current directorships in other listed company (if any) and details of other principal commitments held by each of these Directors are set out on pages 5 to 7 of this Annual Report.

(2) Ordinary Resolution 6, if passed, will authorise the directors to issue shares and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding 50 per cent. of the total number of issued shares (excluding treasury shares and subsidiary holdings) (the "50% Limit"), with a sub-limit of 20 per cent for issues other than on a *pro rata* basis to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time that Ordinary Resolution 6 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Ordinary Resolution 6 is passed, and (b) any subsequent bonus issue or consolidation or subdivision of shares. As at 16 August 2018, the Company had 4,000 treasury shares and no subsidiary holdings.

(3) Ordinary Resolution 7, if passed, will authorise the Directors of the Company from the date of this Annual General Meeting until the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held to grant Awards in accordance with the provisions of the Scheme and to allot and issue shares under the Scheme, provided that the aggregate number of shares to be issued or delivered pursuant to the Scheme and pursuant to all other share option or other share schemes of the Company shall not exceed 15 per cent of the total number of issued shares (excluding treasury shares) in the capital of the Company at any time and from time to time.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Note:

1. A registered Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.

2. If a registered Shareholder is unable to attend the Annual General Meeting and wishes to appoint a proxy to attend and vote at the Annual General Meeting in his stead, then he should complete and sign the relevant Member Proxy Form and deposit the duly completed Member Proxy Form at the office of the Company's Share Transfer Agent in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than 48 hours before the time appointed for the Annual General Meeting.

3. A depositor registered and holding Shares through The Central Depository (Pte) Limited ("**CDP**") who/which is (i) an individual but is unable to attend the Annual General Meeting personally and wishes to appoint a nominee to attend and vote; or (ii) a corporation, must complete, sign and return the Depositor Proxy Form and deposit the duly completed Depositor Proxy Form at the office of the Company's Share Transfer Agent in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than 48 hours before the time appointed for the Annual General Meeting.

4. If a Shareholder who has Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members is unable to attend the Annual General Meeting and wishes to appoint a proxy, he should use the Depositor Proxy Form and the Member Proxy Form for, respectively, the Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members.

5. A Depositor who is an individual and who wishes to attend the Annual General Meeting in person need not take any further action and can attend and vote at the Annual General Meeting as CDP's proxy without the lodgement of any proxy form.

China Fibretech

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