

# THREADING CHINA SERVING THE WORLD

Annual  
Report  
2011

China Gaoxian Fibre Fabric Holdings Ltd.



[www.chinagaoxian.com](http://www.chinagaoxian.com)





## CONTENTS

- 2 Corporate Profile

---
- 3 Our Products

---
- 4 Interim CEO's Statement

---
- 6 Operations & Financial Review

---
- 7 Board of Directors

---
- 9 Executive Officers

---
- 10 Corporate Information



A LEADING SUPPLIER  
OF PREMIUM DIFFERENTIATED  
FINE POLYESTER YARN  
AND WARP KNIT FABRIC



## CORPORATE PROFILE

Listed on the Main Board of Singapore Exchange in September 2009 and dual listed on the Main Board of Korea Exchange in January 2011, China Gaoxian Fibre Fabric Holdings Ltd. ("China Gaoxian") is a leading supplier of premium differentiated fine polyester yarn and warp knit fabric in the PRC. It is principally engaged in the manufacture of premium differentiated fine polyester yarn and fabric under its own "HuaGang" (华港) and "DaHuaWei" (大华威) brands.

By varying the physical, mechanical and chemical properties of the fibres, China Gaoxian produces substitutes for other fibres like silk or nylon, but with desirable properties added on in terms of warmth, texture and feel, luster, tensile strength, as well

as abrasion resistance. As such, its products are widely used in the manufacture of mid-to high-end apparels and utilities, including sportswear, casual wear, upholstery for automobiles and aeroplanes, sports shoes, headgear, curtains, bedding, bags and umbrellas.

It is one of the few in China with the technology to compete against the high grade imports. China is still largely relying on imports to satisfy the strong demand for higher quality polyester yarn in the domestic market.

China Gaoxian is well positioned to capture this growing domestic market with an established customer base of over 1,500 domestic textile and garment manufacturers, and experienced management with more than 15 years of expertise in polyester yarn business.

Its two production facilities are strategically located in Zhejiang and Fujian provinces, otherwise known as the two textile hubs of the PRC, which gives it easy access to the entire production chain. It therefore enables the group to respond quickly to customers' demands and develop long lasting relationships with many of its local customers.

With an annual production capacity of 210,000 metric tonnes of differential polyester yarn and 81,000 metric tonnes of warp knitted fabric, China Gaoxian is one of the largest differential polyester yarn and fabric producers in the PRC.

- Located in **Fujian** and **Zhejiang** Provinces, two of PRC's major textile and garment production provinces
- Easy access to labour and suppliers of raw materials
- Proximity to fabric, textile and garment manufacturers in these areas enables us to tap into the region's fabric, textile and garment markets





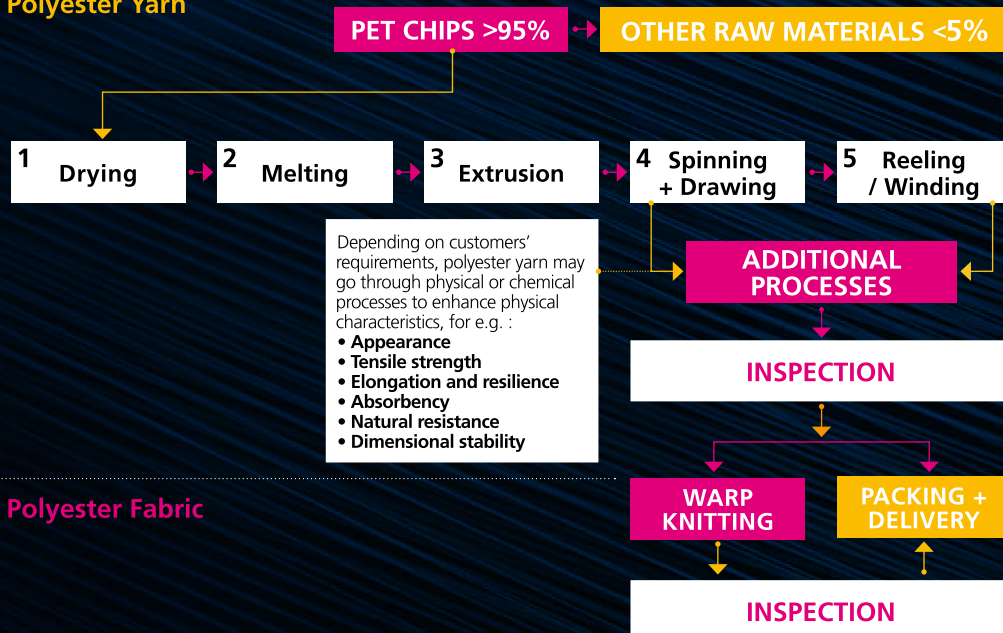
## OUR PRODUCTS



PRODUCT	PROPERTIES	OTHER FEATURES
<b>Fully Drawn Yarn</b> ("FDY") With filament count of 24f and linear densities of 35D and 50D	High tensile strength; semi-dull; softer; smoother feel; wrinkle resistance; soft luster	<ul style="list-style-type: none"> <li>• Finer in texture as compared to more commonly available polyester FDY 150D/48f</li> <li>• Suitable for high-end apparels and home furnishings</li> </ul>
<b>Drawn Textured Yarn</b> ("DTY")	Combines desired properties of natural fibre (eg warm, bulk, soft luster) and polyester fibre (high strength, elasticity, stretch and abrasion resistance)	<ul style="list-style-type: none"> <li>• Achieved through a texturing process</li> <li>• Fabric manufactured from DTY feels warm due to static air trapped between fibres, and have a softer and greater volume due to untwisted fibres</li> </ul>
<b>Blended Yarn</b> ("BY")	Higher tensile strength; resilience; shape-retention; crease resistance; high breathability; soft and smooth	<ul style="list-style-type: none"> <li>• Highly suitable for making suits, gowns and sports apparels</li> </ul>
<b>Triangular-Fibre Yarn</b> ("TFY") Low linear density of about 50D	Brilliant luster; fine and smooth texture; high abrasion resistance, resistance to heat and mould; durable, does not fade or crease easily	<ul style="list-style-type: none"> <li>• New product developed in-house</li> <li>• Spun from polyester filaments which have a reflective surface due to triangular cross sectional shape similar to silk</li> <li>• Fabrics made with triangular-fibre yarn look and feel like silk</li> </ul>
<b>Warp Knit Fabric</b> ("WKF")	Tailored to meet customers' specifications, e.g. tensile strength, elasticity and texture	

## PRODUCTION PROCESS

### Manufacture of Polyester Yarn



### Manufacture of Polyester Fabric

## INTERIM CEO'S STATEMENT

**Barring any unforeseen circumstances, China Gaoxian remains confident about the long term prospects for the fibre industry in China and is therefore committed towards the Huaxiang Project so as to move to differentiated products with higher premium.**

Dear Valued Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company"),

On behalf of the Board of Directors, I would like to present to you the Annual Report for the financial year ended 31 December 2011 ("FY2011"). Once again, we offer our sincerest apology for the inconvenience and anxieties caused to shareholders as a result of the trading suspension of our Company's shares and depository receipts.

As mentioned previously, the Directors are working with the professional advisers to resolve the issues leading to the trading suspension and hope to present a resumption of trading proposal to the shareholders and the Singapore Exchange Securities Trading Limited ("SGX-ST") for approval as soon as possible. As there has been some progress made towards this end, we wish to update shareholders accordingly.

### REVIEW OF EVENTS TO-DATE

2011 was another challenging period for the fibre industry as it was impacted by a contraction of exports and a reduced domestic demand resulting from a slowdown in China's economy. The prevailing tight credit environment in China was also a

contributing factor which depressed demand and squeezed margins for our current products.

In the midst of the industry downturn, the management had managed to maintain the operations of the Group while facilitating the special audit. The management had also made efforts to boost staff morale and strengthen relationships with key clients.

As the Company is listed on both the SGX and KRX, the Board also had to deal with the requirements of the two exchanges with regards to continuing disclosure, financial reporting and other statutory requirements. It did not help that the Company's shares and KDRs were suspended and the Company was not in a position to comply with some of these requirements while the Special Audit progressed.

### Special Auditors' Report

On 20 April 2011, the Audit Committee appointed PricewaterhouseCoopers LLP as special auditors ("Special Auditors") to conduct a review into the financial affairs of the Group, including its cash, bank and account receivable balances, as well as capital expenditures of the Group incurred

during the financial year ended 31 December 2010 ("FY2010") and the financial quarter ended 31 March 2011 ("1QFY2011").

The Special Auditors have just released their findings and a copy of their Executive Summary ("**SA Report**") was announced by the Company on 4 May 2012. Currently, the Audit Committee is discussing with the Company's lawyers, auditors and other professionals on the contents of the SA Report and the appropriate actions to take, including such additional and appropriate measures to further enhance the corporate governance procedures of the Group.

According to the SA report, despite repeated requests by the Independent Directors and the Interim CEO, the Special Auditors were unable to obtain the bulk of the accounting books and records for the period prior to 1 April 2011. Hence, the Special Auditors were unable to reconstruct the accounts as at 31 December 2010 and 31 March 2011 based on the limited information provided to them. The PRC management's explanation was that after certain financial staff left the Company, the bulk of

## INTERIM CEO'S STATEMENT

the aforesaid records could not be found. Attempts to locate these staff and missing records were unsuccessful.

In view of this, the Audit Committee has sought legal advice from the Company's PRC legal counsel on the appropriate actions to take in such circumstances, including lodging report(s) with the relevant PRC authorities and taking appropriate legal actions against any relevant party, with a view of recovering these missing records and holding the relevant party accountable for the same. The SA Report also mentioned that the Huaxiang Project proceeded without the necessary shareholders' approval. Hence, the Company intends to seek shareholders' ratification for the Huaxiang Project at an Extraordinary General Meeting to be convened.

### Resumption of Trading Proposal

The Company has also entered into a Non-binding Term Sheet with a new investor and has announced this on 4 May 2012. The Company will provide updates as to any further material development in these matters in due course. Currently, the Company has up to 25 July 2012 to finalise and submit a resumption of trading

proposal to SGX-ST for approval. If approved, the resumption of trading proposal would allow us to proceed with the Huaxiang Project under the management of a new controlling shareholder.

### FUTURE OUTLOOK

The operating environment for FY2011 was extremely challenging as the Group faced a more competitive landscape and a downturn in the industry cycle in the PRC. The Group continues to operate under difficult business conditions which included severe price competition from existing and new competitors, inflation in the PRC, and lower average selling prices. These challenging economic and business conditions are expected to prevail over the short term. However, given the eventual easing of the credit crunch in China and the improving Global Economy, the long term outlook should turn positive. Barring any unforeseen circumstances, the Board of Directors of China Gaoxian remains confident about the future prospects for the fibre industry in China and is therefore committed towards the Huaxiang Project so as to move to differentiated products with higher premium.

### APPRECIATION

On behalf of the Board of Directors, I would like to express my utmost appreciation to our shareholders and depository receipt holders for your continued patience during this difficult period. I am also grateful to our Independent Directors for their continued counsel, support and guidance as the Company transitions through this difficult time.

In addition, I would also like to extend my sincerest gratitude to our management and staff for their continued dedication and commitment to maintain ongoing business operations, as well as to our business partners, suppliers and customers for their confidence and support of the Group during this challenging period. We hope that you all can continue to give us your support.

Yours faithfully,

**Jerome Tham**  
Interim CEO



## OPERATIONS & FINANCIAL REVIEW

The Group recorded a net loss attributable to equity holders of RMB216.5 million for the nine months of the financial year ended 31 December 2011 ("FY2011"). The Group's net loss was mainly due to the impairment of Property, Plant, and Equipment of RMB172.7 million. Excluding the abovementioned impairment, non-recurring fees of RMB12.2 million, and Huaxiang Project pre-operating expenses of RMB17.7 million, the operating loss for the 9 months of FY2011 is approximately RMB13.9 million.

The Special Auditors have just released their findings and a copy of their Executive Summary was announced by the Company on

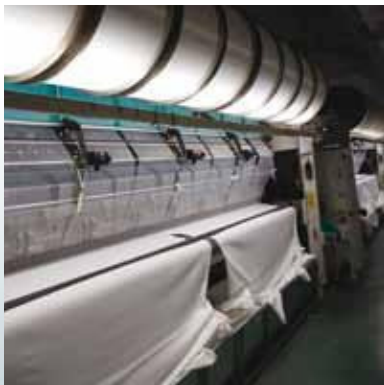


4 May 2012. Although the Special Auditors have completed their review into the financial affairs of the Group, they were not able to obtain the bulk of the Group's accounting books and records for the period prior to 1 April 2011. Hence, the Special Auditors were not able to reconstruct the Group's accounts as at 31 March 2011 based on the limited information provided to them.

In view of the aforesaid, the Company has sought legal advice on the appropriate actions to take in such circumstances, including lodging report(s) with the relevant PRC authorities and taking

appropriate legal actions against any relevant party, with a view of, inter alia, recovering these missing records. However, the chance of recovering the aforesaid records within a reasonable amount of time may be remote. Moreover, even if the aforesaid missing records could be recovered, there is no assurance that these financial records would be complete, or that all material supporting documents and information required for reconstructing the aforesaid Group's accounts would be available.

In view of the above and the other concerns set out under the Statement by Directors in page 29 of this report, we are unable to provide a detailed operations and financial review of the Group for FY2011.



## BOARD OF DIRECTORS

### Cao Xiangbin

曹祥彬

Mr. Cao founded our Group and had accumulated more than 20 years of experience in the synthetic fibre and textile industry. During his tenure as Executive Chairman and CEO, Mr. Cao was responsible for the business direction and long term strategic planning of our Group and its overall management and operations. Mr. Cao was re-designated to non-Executive Chairman on 21 April 2011.

Prior to establishing our Group in 1997, Mr. Cao worked in the sales department of Changle Caozhu Textile Factory (长乐市曹朱纺织厂) from 1985 to 1988 and subsequently, as the deputy director of Changle Caozhu No. 3 Warp Knitting Factory (长乐曹朱第三经编厂) (which main business was the production and sale of polyester fabric) from 1989 to 1996. The latter company has been dormant since 1997.

Mr. Cao graduated from the University of Fuzhou (福州大学) in 1984 with a degree in Bio-Engineering. He has been a Committee Member of Changle City Peoples' Representative Committee (长乐市人民代表大会) since 2003 and Vice Chairman of Changle Entrepreneur Association (长乐市化纤协会) and Changle Chemical Fibre Association since 2003.

### Tham Wan Loong, Jerome

谭运龙

Mr. Jerome Tham was appointed as our Director on 24 November 2008 and designated as our Independent Director on 3 June 2009. He was re-designated as the Group's Non-Executive Director on 29 November 2010. On 21 April 2011, Mr. Jerome Tham was re-designated as the Group's Executive Director and Interim CEO.

He brings with him over 25 years of experience in equity sales and private banking. He was a Senior Relationship Manager with OCBC Private Bank. Prior to joining OCBC Private Bank in March 2008, he held several senior positions as a Private Banker with major financial institutions such as UOB Bank Ltd, Credit Industriel et Commercial, Dexia BIL Asia Pte Ltd, DMG and Merrill Lynch (Singapore).

His equity sales experience includes working for companies such as Japan Asia Holdings Ltd, DMG and Partners Securities Pte Ltd, BT Brokerage and Associates Pte Ltd and Daiwa Singapore Ltd. Mr Tham graduated with a degree in Social Science (with Honours) in Economics from the National University of Singapore in 1983.

### Chen Fen

陈奋

Mr. Chen is our Executive Director and General Manager of New Huawei, and has been with us since 1997 (previously as General Manager of Fujian Huawei prior to the Restructuring Exercise). He assists our Group in the overall management, operations and administration of New Huawei.

Mr. Chen was the factory manager of Changle City Caozhu No.3 Warp Knitting Factory (长乐市曹朱第三经编厂) from 1995 to 1997 and its business manager in 1994. The company's main business was the production and sale of polyester fabric. Changle City Caozhu No.3 Warp Knitting Factory (长乐市曹朱第三经编厂) has been dormant since 1997.

Mr. Chen graduated from Guangdong Institute of Textile Technology (广东纺织技术学院) in 1994 with a diploma in Textile Engineering.

# BOARD OF DIRECTORS

## Chan Wai Meng

陈伟明

Mr. Chan Wai Meng was appointed as the Independent Director of the Group on 29 June 2009. He has more than 30 years of experience in finance, investments, sales and marketing. He has worked in management positions in various organizations including Hewlett Packard Group, DBS Bank Group and Singapore Pools Pte Ltd. Currently, he provides consultancy services to investors in PRC, Hong Kong and Singapore. Mr. Chan graduated with a Degree in Accountancy from the University of Singapore in 1977. He is a member of the Institute of Certified Public Accountants of Singapore and the Singapore Institute of Directors.

## Chan Kam Loon

陈锦轮

Mr. Chan Kam Loon, our Audit Committee Chairman, was appointed as Independent Director of the Group on 1 December 2009. He was formerly the head of the Listings Function at the Singapore Exchange.

Mr. Chan has an accountancy degree from the London School of Economics and is a qualified UK Chartered Accountant. He articulated with KPMG in London before returning to Singapore to practice with PriceWaterhouse in Singapore.

Mr. Chan later worked in the corporate finance teams at Morgan Grenfell Asia and Hoare Govett Asia in Singapore and in private equity with Suez Asia Holdings.

Mr. Chan is a member of the Singapore VC Association and the Singapore Institute of Directors and also an Independent Director of Jiutian Chemical Group, Hupsteel Ltd, Zobee Holdings Ltd, Megachem Limited and Sarin Technologies Ltd.

## Kwak Kyung Jik

郭京直

Mr. Kwak Kyung Jik was appointed as Independent Director on 3 June 2011. He brings with him more than 25 years of experience in legal practice. He served for 14 years as a judge at various district and high courts in the Republic of Korea including Seoul District Court and Seoul High Court, then practiced law at Bae, Kim & Lee LLC as a senior partner in the M&A/Corporate Restructuring Practice Group for 8 years on dispute resolutions and corporate transactions. He is currently the lead partner of Kwak & Co., which he founded in 2009.

Mr. Kwak graduated from the Seoul National University with a degree in law in 1981 and has studied law at Columbia and Yale law schools. He is licensed to practice law in Korea and New York.



## EXECUTIVE OFFICERS

### Liu Yilin

刘宜林

Mr. Liu was appointed as our Deputy Chief Executive Officer on 1 October 2010 and is responsible for the overall business developments of our Group. He has almost fifteen years of experience in the chemical fibre industry.

Mr. Liu was previously the deputy general manager of Fujian Jinlun Gaoxian Co., Ltd (福建省金伦高纤股份有限公司) from 2007 to 2008. Prior to that, he assumed the positions of executive production department, manager of production department and vice general manager sequentially in Fujian Hua Wei Chemical Fibre Dyeing Co., Ltd (福建省华威化纤染织有限公司) from 1997 to 2007.

### Chen Guo Dong

陈国东

Mr. Chen joined the Group as Vice Financial Controller of the Holding Company on 19 January 2010, and was promoted to the position of Chief Financial Officer on 21 April 2011 to take responsibility for overall financial, accounting, compliance, reporting, and internal control functions of our Group.

Mr. Chen has extensive knowledge in the areas of internal controls and financial reporting in addition to his global and diverse experience. Prior to joining the Group, Mr. Chen held a position with KPMG LLP (New York) as a Senior Associate specializing in Audit and Risk Assurance. He brings along years of experience in internal controls and financial reporting. Prior to this, Mr. Chen worked as an Accountant and Assistant to Controller for New York Commerical Bank, providing monthly management reports for regulatory purposes as well as for the board of trustees.

Mr. Chen is a Certified Public Accountant in the State of New York and member of American Institute of Certified Public Accountants. He holds a Masters Degree in Accounting from SUNY Old Westbury College.

### Lu Songmin

陆松民

Mr. Lu is our Production Manager and is responsible for overseeing the day-to-day production operations of the Group. He has been with our Group since 2004. In May 2011, Mr. Lu was promoted to General Manager of our subsidiary – Zhejiang Huagang – to assist our interim CEO in the overall operations and administration of this subsidiary.

Mr. Lu was previously the vice manager of Hangzhou Lian Jia Chemical Fibre Co., Ltd (杭州联佳化纤有限公司) from 2002 to 2004. Prior to that, he was a vice manager Fujian Huawei from 2000 to 2002 and a production manager with Zhejiang Dongchang Group (浙江东长集团) from 1993 to 2000.

Mr. Lu graduated from Zhejiang Silk Engineering College (浙江丝绸工学院) in 1993 with a diploma in Textile Engineering.

# CORPORATE INFORMATION

## Board of Directors

Mr. Cao Xiangbin  
(Non-Executive Chairman)

Mr. Tham Wan Loong Jerome <sup>(1)</sup>  
(Executive Director and Interim Chief Executive Officer)

Mr. Chen Fen  
(Executive Director and General Manager of New Huawei)

Mr. Chan Wai Meng <sup>(1)</sup>  
(Independent Director)

Mr. Chan Kam Loon  
(Independent Director)

Mr. Kwak Kyung Jik  
(Independent Director)  
(appointed on 3 June 2011)

Mr. Lau Chung Kong  
(Executive Director)  
(resigned on 21 April 2011)

Mr. Liu Yijie  
(Executive Director)  
(resigned on 21 April 2011)

## Audit Committee

Mr. Chan Kam Loon  
(Chairman)

Mr. Chan Wai Meng

Mr. Tham Wan Loong Jerome

## Remuneration Committee

Mr. Chan Wai Meng  
(Chairman)

Mr. Chan Kam Loon

Mr. Tham Wan Loong Jerome

## Nominating Committee

Mr. Chan Kam Loon  
(Chairman)

Mr. Chan Wai Meng

Mr. Tham Wan Loong Jerome

## Joint Company Secretaries

Abdul Jabbar Bin Karam Din,  
LLB (Hons)

Chan Hooi Tze (FCIS)

## Share Registrar and Share Transfer Office

Tricor Barbinder Share  
Registration Services  
(A division of Tricor  
Singapore Pte Ltd)  
8 Cross Street #11-00  
PWC Building  
Singapore 048424  
Tel : 6236 3333  
Fax : 6236 4399

## Auditors

Ernst & Young LLP  
One Raffles Quay  
North Tower Level 18  
Singapore 048583

## Partner-in-charge:

Tan Peck Yen  
(appointed since 2008)

## Principal Bankers

Bank of China  
(Changle Branch)  
27 Jianshe Road  
Wuhangzhen, Changle City  
Fujian Province, PRC 350200

Bank of China  
(Singapore Branch)  
4 Battery Road  
Singapore 049908

Bank of Communications  
(Huzhou Shizhong Branch)  
No. 172 Hong Qi Road  
Huzhou City, Zhejiang Province  
People's Republic of China, 313000

Industrial and Commercial Bank  
of China Limited  
(Huzhou Branch)  
Zhili North Road  
Zhili Town, Huzhou City,  
Zhejiang Province  
People's Republic of China, 313008

Shanghai Pudong Development Bank  
(Offshore Banking Services Centre)  
689 East Beijing Road  
12F Dong Yin Building  
Shanghai, PRC 200002

## Registered Office

9 Battery Road #15-01  
Straits Trading Building  
Singapore 049910  
Tel : 6535 3600  
Fax : 6225 6846

## Head Office and Principal Place of Business

Industrial Area of Balidian Town  
Wuxing District, Huzhou City  
Zhejiang Province  
People's Republic of China, 313002

<sup>(1)</sup> Mr. Tham Wan Loong Jerome was re-designated as Executive Director and Interim Chief Executive Officer on 21 April 2011 and Mr. Chan Wai Meng ceased to be the Lead Independent Director on the same date.

# FINANCIAL CONTENTS

Corporate Governance	12
Directors' Report	27
Statement by Directors	29
Independent Auditors' Report	30
Consolidated Statement of Comprehensive Income	32
Balance Sheets	33
Statements of Changes in Equity	34
Consolidated Cash Flow Statement	37
Notes to the Financial Statements	39
Shareholdings Statistics	80
Notice of Annual General Meeting	82



# CORPORATE GOVERNANCE

China Gaoxian Fibre Fabric Holdings Ltd. (the “Company”) was listed on the Mainboard of the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 18 September 2009 and dual listed on the Main Board of Korea Exchange (“KRX”) on 25 January 2011.

This report describes the corporate governance framework and practices of the Company with specific reference to the principles of the Singapore Code of Corporate Governance introduced in April 2001 and amended in 2005 (the “2005 Code”).

This Report should be read as a whole, instead of being read separately under the different principles of the 2005 Code.

## **(A) BOARD MATTERS**

### **Board’s Conduct of its Affairs**

***Principle 1 : Every company should be headed by an effective Board to lead and control the company.***

#### **Role of the Board of Directors (the “Board”)**

##### *Principle 1: The Board’s Conduct of Affairs*

The Board assumes responsibility for stewardship of the Company and its subsidiaries (the “Group”) and is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. It supervises the management of the business and affairs of the Group, provides corporate direction, monitors managerial performance and reviews financial results of the Group. In addition, the Board is directly responsible for decision making in respect of the following matters:

- a. approve the business strategies including significant acquisition and disposal of subsidiaries or assets and liabilities;
- b. approve the annual budgets, major funding proposals, significant capital expenditures and investment and divestment proposals;
- c. approve the release of the Group’s quarterly and full year’s financial results and interested person transactions;
- d. oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls, as may be recommended by the Audit Committee;
- e. review the performance of Management, approve the nominees to the Board of Directors and appointment of key executives, as may be recommended by the Nominating Committee;
- f. review and endorse the framework of remuneration for the Board and key executives, as may be recommended by the Remuneration Committee; and
- g. corporate policies in keeping with good corporate governance and business practice.

The Board provides shareholders with a balanced and understandable assessment of the Group’s performance, position and prospects on a quarterly basis.

To assist in the execution of its responsibilities, the Board has established a number of Board committees which include an Audit Committee (“AC”), a Nominating Committee (“NC”) and a Remuneration Committee (“RC”), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis.

# CORPORATE GOVERNANCE

During the audit of its FY2010 accounts, the AC was informed by our Auditors that it could not confirm nor verify certain bank balances in the Company's subsidiaries in China. In view of this development, the Board, upon recommendation of the AC and in consultation with SGX-ST and KRX, appointed PricewaterhouseCoopers LLP as special auditors ("Special Auditors") to conduct a special review into the financial affairs of the Group, including its cash at banks and account receivables balances, as well as capital expenditures of the Group incurred during FY2010 and the financial quarter ended 31 March 2011.

The Special Auditors have since completed their review and a copy of their Executive Summary was announced on 4 May 2012 ("SA Report"). The Audit Committee has been in discussion with the Company's lawyers, auditors and other professionals on the contents of the SA Report and the appropriate actions to take, including such additional and appropriate measures to further enhance the corporate governance procedures of the Group. Please refer to the discussion under the section titled "Internal Controls and Internal Audit" for more details.

## **Board Meetings and Meetings of Board Committees**

The Board meets on a quarterly basis and whenever necessary for the discharge of their duties. Dates of the Board meetings are normally set by the directors well in advance. Meetings of the Board and Board Committees may be conducted by way of telephone and video conferencing, if necessary. Decisions of the Board and Board Committees may also be obtained through circular resolutions.

The number of meetings held by the Board and Board committees and attendance thereat during the year ended 31 December 2011 are as follows:

DIRECTORS	BOARD		AC		RC		NC	
	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended
<b>Present Directors</b>								
Cao Xiangbin	5	3	-	-	-	-	-	-
Chen Fen	5	1	-	-	-	-	-	-
Chan Wai Meng	5	5	12	10	2	2	2	2
Tham Wan Loong Jerome	5	5	12	12	2	2	2	2
Chan Kam Loon	5	4	12	12	2	2	2	2
Kwak Kyung Jik <sup>(1)</sup>	3	2	-	-	-	-	-	-
<b>Past Directors</b>								
Lau Chung Kong <sup>(2)</sup>	1	0	-	-	-	-	-	-
Liu Yijie <sup>(2)</sup>	1	1	-	-	-	-	-	-

Note:

<sup>(1)</sup> Mr Kwak Kyung Jik was appointed as an Independent Director on 3 June 2011.

<sup>(2)</sup> Mr Lau Chung Kong and Mr Liu Yijie resigned as an Executive Director of the Company with effect from 21 April 2011.

# CORPORATE GOVERNANCE

## *Training*

The Board constantly examines its size and, with a view to determining the impact of its number upon effectiveness, decide on what it considers an appropriate size for itself. The composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience. As the Company is in the process of negotiating with a potential investor on taking a controlling stake in the Company, the composition of the Board is likely to change upon the completion of such investment.

All directors have many years of corporate experience and are familiar with their duties and responsibilities as directors. Directors also have the opportunity to visit the Group's operational facilities and meet up with the management to gain a better understanding of the Group's business operations. In addition, the Company has in place a programme whereby newly appointed directors will be given briefings and orientation training by the senior management of the Company on the business activities of the Group and its strategic directions, as well as their duties and responsibilities as directors. The directors are also briefed by professionals either during Board meetings or at separate meetings on regulatory changes which have an important bearing on the Company and the directors' obligations to the Company.

## **Board Composition and Balance**

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

The Board currently consists of six (6) directors of whom three (3) are independent. The list of directors is as follows:

### Executive Directors

Tham Wan Loong Jerome (Executive Director and Interim Chief Executive Officer) (re-designated on 21 April 2011)  
Chen Fen (Executive Director)  
Lau Chung Kong (Executive Director) (resigned on 21 April 2011)  
Liu Yijie (Executive Director) (resigned on 21 April 2011)

### Non-Executive Directors

Cao Xiangbin (Non-Executive Chairman) (re-designated on 21 April 2011)  
Chan Wai Meng (Independent Director)  
Chan Kam Loon (Independent Director)  
Kwak Kyung Jik (Independent Director) (appointed on 3 June 2011)

When the Group's audit issues surfaced in March 2011, Mr Cao Xiangbin stepped down as the Chief Executive Officer of the Group with effect from 21 April 2011. Mr Cao Xiangbin however remains as Non-Executive Chairman of the Board and Mr Jerome Tham took over as interim Chief Executive Officer ("CEO").

Mr Lau Chung Kong and Mr Liu Yijie also resigned as Executive Directors of the Company with effect from 21 April 2011.

Further to the listing of the Company's Korean Depository Receipts on KRX, the Board appointed Mr Kwak Kyung Jik, who is based in Korea, as an Independent Director with effect from 3 June 2011.

The size and composition of the Board are reviewed from time to time by the NC to ensure that the size of the Board is conducive to effective discussions and decision making. The current Board comprises of persons with diverse expertise and experience in accounting, legal, business, management, finance and risk management who as a group provide core competencies necessary to meet the Company's requirements. As mentioned in Principle 1, the composition of the Board is likely to change when the new investor takes a controlling stake in the Company.



# CORPORATE GOVERNANCE

## *Independence of directors*

The NC reviews the independence of each director on an annual basis based on the Code's definition of what constitutes an independent director. The NC is of the view that the three (3) independent directors (who represent more than one-third of the Board) are independent and that there is a strong and independent element on the Board which is able to exercise objective judgement on corporate matters independently, in particular, from Management, and that no individual or small group of individuals dominate the Board's decision-making process.

## **Chairman and Chief Executive Officer**

***Principle 3 : There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.***

Mr Cao Xiangbin, the founder of the Group, was the Executive Chairman and CEO of the Group up to 21 April 2011. He was responsible for the business direction, long term strategic planning and its overall management and operations of the Group.

He was also responsible for, among others, the exercise of control over quantity, quality and timeliness of the flow of information between the management of the Company and the Board. He, with the assistance of the Company Secretary, schedules Board meetings, oversees the preparation of the agenda for Board meetings and assists in ensuring compliance with the Group's guidelines on corporate governance.

Following the appointment of the Special Auditors, Mr Cao Xiangbin stepped down as the CEO with effect from 21 April 2011 and Mr Jerome Tham took over as the interim CEO. However, Mr Cao Xiangbin remains as the Non-Executive Chairman of the Board.

Mr Jerome Tham together with the Executive Director, Chief Financial Officer and management comprising each subsidiary's general managers and key senior managers, are responsible for the day-to-day management of the Group.

## **Board Membership**

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

Currently, the NC comprises of majority non-executive and independent directors and an executive director. It is chaired by Mr Chan Kam Loon (a non-executive and independent director) with the following directors as members:

Chan Wai Meng	(non-executive and independent)
Tham Wan Loong Jerome	(executive)

# CORPORATE GOVERNANCE

The primary functions of the NC are as follows:

- to identify candidates and review all nominations for the appointment or reappointment of members of the Board, the CEO of the Group, and to determine their selection criteria;
- to ensure that all Board appointees undergo an appropriate induction programme;
- to regularly review the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps;
- to decide whether a director is able to and has been adequately carrying out his duties as director of the Company, particularly where the director has multiple board representations;
- to review the independence of each director annually;
- to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- to evaluate the effectiveness of the Board as a whole and assesses the contribution by each individual director, to the effectiveness of the Board.

For the year under review, the NC held two (2) meetings.

The directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three (3) years. Under the Company's existing Articles of Association, one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not lesser than one-third) shall retire from office by rotation. In reviewing and recommending to the Board the re-nomination and re-election of existing directors, the NC takes into consideration the directors' contribution and performance at Board meetings, including attendance, preparedness, participation and candour.

Each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his own performance or re-nomination as a director.

The NC is satisfied that sufficient time and attention are being given by the directors to the affairs of the Company and Group, notwithstanding that some of the directors have multiple board representations.

In its search and nomination process for new directors, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates.

## **Board Performance**

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

The NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing long-term shareholders' value. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board as a whole.

# CORPORATE GOVERNANCE

The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with management and standards of conduct of the directors.

The current Board comprises persons with diverse expertise and experience in accounting, legal, business, management, finance and risk management who as a group provide core competencies necessary to meet the Company's requirements. As mentioned in Principle 1, the composition of the Board is likely to change when the new investor takes a controlling stake in the Company.

## **Access to Information**

***Principle 6: In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.***

To assist the Board in fulfilling its responsibilities, the management provides regular updates to the Board from time to time and, when applicable, as and when requested by the Board. All directors have separate and independent access to the management, including the Company Secretary at all times. The Company Secretary attends all Board meetings and ensures that Board procedures and all other rules and regulations applicable to the Company are complied with.

Changes to regulations are closely monitored by Management and for changes which have an important bearing on the Company or the Directors' disclosure obligations, the Directors are briefed during Board meetings.

The directors and the chairmen of the respective committees, whether as a group or individually are able to seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense.

In view of the findings in the SA Report, the Board will look into enhancing the corporate governance procedures of the Group, including directors' access to information. In this regard, the Board is in the process of appointing an internal auditor to carry out an independent review of the corporate governance procedures of the Group.

## **(B) REMUNERATION MATTERS**

### **Procedures for Developing Remuneration Policies**

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

Currently, the RC comprises of majority non-executive and independent directors and an executive director. It is chaired by Mr Chan Wai Meng (non-executive and independent) with the following directors as members:

Chan Kam Loon	(non-executive and independent)
Tham Wan Loong Jerome	(executive)

In view of the challenges in recruitment and staff retention of the Group, Mr Jerome Tham remains as a member of the RC to provide direct assistance to the Company's compensation and human resource policies.

The members of the RC have many years of corporate experience and are knowledgeable in the field of executive compensation. In addition, the RC has access to expert professional advice on remuneration matters as and when necessary.

# CORPORATE GOVERNANCE

The responsibilities of the RC include the following:

- to review directors' fees to ensure that they are at sufficiently competitive levels;
- to review and advise the Board on the terms of appointment and remuneration of its members, CEO, key executive officers, senior management of the Group and all managerial staff who are related to any of the directors or the CEO;
- to review the terms of the employment arrangements with management so as to develop consistent group wide employment practices subject to regional differences;
- to recommend to the Board in consultation with senior management and the Chairman of the Board, any long term incentive scheme; and
- to review and approve any proposals or recommendations relating to senior management's remuneration.

For the year under review, the RC held two (2) meetings.

The RC reviews all aspects of remuneration and compensation packages including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind.

No director is involved in determining his own remuneration.

## **Level and Mix of Remuneration**

***Principle 8 : The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of the remuneration, especially that of executive directors, should be linked to performance.***

In setting remuneration packages, the RC takes into consideration the prevailing economic situation, the pay and employment conditions within the industry and in comparable companies. As part of its review, the RC ensures that the performance related elements of remuneration form a significant part of the total remuneration package of executive directors and is designed to align the directors' interests with those of shareholders and link rewards to corporate and individual performance. The RC also reviews all matters concerning the remuneration of non-executive directors to ensure that the remuneration commensurate with the contribution and responsibilities of the directors. The Company submits the quantum of directors' fees of each year to the shareholders for approval at each Annual General Meeting ("AGM").

Non-executive directors have no service contracts. Mr Cao Xiangbin had entered into a service contract with the Company on 25 November 2008 and his service contract had been suspended on 21 April 2011 when he was re-designated to Non-Executive Chairman. Mr Jerome Tham has entered into a service contract with the Company with effect from 21 April 2011 when he was re-designated to Executive Director and Interim Chief Executive Officer.

## **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.***

# CORPORATE GOVERNANCE

A breakdown of the remuneration of the directors and the top 7 key executives (who are not directors) for the financial year ended 31 December 2011 are set out below:

## Remuneration of the directors

Remuneration band and names of directors	Salary <sup>(1)</sup>	Bonus <sup>(1)</sup>	Directors' fees <sup>(2)</sup>	Total
<b>Below S\$250,000</b>				
<b>Present Directors</b>				
Cao Xiangbin <sup>(3)</sup>	100%	-	-	100%
Chen Fen	100%	-	-	100%
Tham Wan Loong Jerome <sup>(4)</sup>	92%	-	8%	100%
Chan Kam Loon	-	-	100%	100%
Chan Wai Meng	-	-	100%	100%
Kwak Kyung Jik <sup>(5)</sup>	-	-	100%	100%
<b>Past Directors</b>				
Lau Chung Kong <sup>(6)</sup>	100%	-	-	100%
Liu Yijie <sup>(6)</sup>	100%	-	-	100%

## Remuneration of top 7 Key Executives (who are not directors)

Remuneration band and names of key executives (who are not directors)	Salary <sup>(1)</sup>	Bonus <sup>(1)</sup>	Total
<b>Present Key Executives</b>			
<b>Above S\$250,000</b>			
Liu Yilin	100%	-	100%
Chen Guo Dong <sup>(7)</sup>	86%	14%	100%
<b>Below S\$250,000</b>			
Lu Songmin	100%	-	100%
<b>Past Key Executives</b>			
Wong Wai Kan, Raymond <sup>(7)</sup>	100%	-	100%
Yang Yong <sup>(8)</sup>	100%	-	100%
Cao Yunbin <sup>(8)</sup>	100%	-	100%
Yin Jianfeng <sup>(8)</sup>	100%	-	100%

<sup>(1)</sup> These are under the service contract.

<sup>(2)</sup> The Directors' fees had been approved at the Company's Annual General Meeting held in Year 2011.

<sup>(3)</sup> Mr Cao Xiangbin's service contract was suspended from his re-designation from Executive Chairman to Non-Executive Chairman with effect from 21 April 2011.

<sup>(4)</sup> Mr Tham Wan Loong Jerome was appointed as interim CEO and re-designated from Non-Executive Director to Executive Director with effect from 21 April 2011.

<sup>(5)</sup> Mr Kwak Kyung Jik was appointed as an Independent Director with effect from 3 June 2011.

<sup>(6)</sup> Mr Lau Chung Kong and Mr Liu Yijie resigned as an Executive Directors with effect from 21 April 2011.

<sup>(7)</sup> Mr Chen Guo Dong was appointed as the Chief Financial Officer in place of Mr Wong Wai Kan, Raymond, who has retired with effect from 21 April 2011.

<sup>(8)</sup> Mr Yang Yong, Mr Cao Yunbin and Mr Yin Jianfeng have left their employment in April 2011.



# CORPORATE GOVERNANCE

Saved as disclosed, there are no employees of the Group who are immediate family members of a director or the CEO and whose remuneration exceeds S\$150,000 during the financial year ended 31 December 2011.

In addition, Mr Yan Qing Wei and Mr Yuan Qing have been recruited during the financial year ended 31 December 2011 by the interim management to assist in the day-to-day operations of the Company. Mr Yan Qing Wei and Mr Yuan Qing currently assume the role of Assistant Chief Financial Officer of the Group and Assistant General Manager to assist in the Huaxiang Project, respectively. Their appointment as key executives will be determined at a later stage as the composition of the senior management is likely to change when the new investor takes a controlling stake in the Company.

## (C) ACCOUNTABILITY AND AUDIT

### Accountability

***Principle 10 : The Board is accountable to the shareholders while the Management is accountable to the Board.***

The Board believes in conducting itself in ways that deliver the maximum sustainable value to the shareholders. In presenting the financial statements and periodic results announcements to the shareholders, it is the Board's aim to provide a balanced and comprehensive assessment of the Group's performance and prospects.

As previously disclosed, the Board has appointed the Special Auditors to conduct a special review into the financial affairs of the Group, including its cash at banks and account receivable balances, as well as capital expenditures of the Group incurred during FY2010 and the financial quarter ended 31 March 2011.

The Special Auditors have released their findings and a copy of their Executive Summary was announced by the Company on 4 May 2012. Although the Special Auditors have completed their review into the financial affairs of the Group, they were not able to obtain the bulk of the Group's accounting books and records for the period prior to 1 April 2011. Hence, the Special Auditors were not able to reconstruct the Group's accounts as at 31 March 2011 based on the limited information provided to them.

In view of the aforesaid, the Company has sought and obtained legal advice from *inter alia* its PRC legal counsel on the appropriate actions to take in such circumstances. Further to the legal advice obtained, the Company has on 31 May 2012 lodged a report with the Public Security Bureau of Tantou, Changle City, Fujian Province PRC, with a view of *inter alia* recovering these missing records.

### Audit Committee

***Principle 11 : The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.***

The AC comprises of majority non-executive directors and independent directors and an executive director. The AC is chaired by Mr Chan Kam Loon (non-executive and independent) with the following directors as members:

Chan Wai Meng	(non-executive and independent)
Tham Wan Loong Jerome	(executive)

All members of the AC have many years of experience in senior management positions in both financial and industrial sectors. The Board is of the view that the AC members, having accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities. In view of the challenges the Company and its Group are facing, Mr Jerome Tham remains as a member of the AC to provide direct assistance to the Company's financial performance.

The AC, *inter alia*, oversees the quality and integrity of the accounting, auditing, internal controls and financial practices of the Group.

## **CORPORATE GOVERNANCE**

During the past year, the AC held 12 meetings with professionals and management of the Company to discuss and review inter alia the following matters:

- the measures to be taken in safeguarding the Group's assets, including the change of Group's management structure;
- the appointment of Special Auditors to conduct a special review into the financial affairs of the Group;
- to discuss and propose the appointment of legal counsels, investor relations and consultants;
- to prepare and finalise the resumption of trading proposal in respect of the trading of the Company's shares on the SGX-ST;
- to report to SGX-ST and KRX on the progress of the Special Auditors' review;
- the audit plans of the external auditors of the Company, and their reports arising from the audit;
- the adequacy of the assistance and cooperation given by the Company's management to the external auditors;
- the financial statements of the Company and the consolidated financial statements of the Group;
- the quarterly and annual announcement of the results of the Group before submission to the Board for approval;
- the adequacy of the Group's internal controls in respect of the management, business and service systems and practices;
- legal and regulatory matters that may have material impact on the financial statements, compliance policies and programmes and any reports received from regulators;
- the cost effectiveness, independence and objectivity of the external auditors;
- the approval of compensation to the external auditors;
- the nature and extent of non-audit services provided by the external auditors;
- the recommendation to the Board for the appointment or re-appointment of the external auditors of the Company;
- to report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
- interested person transactions to ensure that the current procedures for monitoring of interested party transactions have been complied with.

In performing its functions, the AC :

- met more than once with the external auditors, without the presence of the Company's management and reviewed the overall scope of the external audit, internal audit and the assistance given by the management to the auditors;
- has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention with access to records, resources and personnel to enable it to discharge its function properly; and
- has access to and cooperation of the management and discretion to invite any director or executive officer to attend its meetings.

## CORPORATE GOVERNANCE

The AC was informed by the auditors of the Company in March 2011 that it could not verify nor confirm the bank balances in the Company's subsidiaries. For the period from 24 March 2011 to 30 September 2011, the AC had held numerous meetings with and without Management, together with professionals, including meetings with the stock exchanges with a view to safeguard the assets of the Company and the interests of minority shareholders.

The AC has been in active discussions with the Non-Executive Chairman, Mr Cao Xiangbin since it was first informed of the Auditors' difficulty in verifying the bank balances. Members of the AC had visited the Company's subsidiaries in Huzhou, Zhejiang Province and Fuzhou, Fujian Province to discuss the Group's affairs and operations with management.

From April 2011, the AC together with Mr Kwak Kyung Jik had held numerous meetings, to ensure that the day-to-day operations are on-going and to assist in the special review of the financial affairs of the Group by the Special Auditors, to safeguard interests of the shareholders and Korean depository receipts unit holders. In addition, the AC and Mr Kwak also held meetings with professionals, the SGX-ST and KRX.

The external auditors and the Special Auditors have unrestricted access to the AC during the year under review. Since the release of the SA Report, the Audit Committee has been in discussion with the Company's lawyers, auditors and other professionals on the contents of the SA Report and the appropriate actions to take, including such additional and appropriate measures to further enhance the corporate governance procedures of the Group.

The AC has undertaken a review of all the non-audit services provided by the external auditors during the year under review and is satisfied that such services would not, in the AC's opinion, affect the independence of the external auditors. The AC recommends to the Board the re-appointment of Ernst & Young LLP as the external auditors of the Company at the forthcoming Annual General Meeting.

### **Internal Controls and Internal Audit**

***Principle 12 : The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.***

***Principle 13 : The company should establish an internal audit function that is independent of the activities it audits.***

The Board is responsible for ensuring that Management maintains a sound system of internal controls to safeguard shareholders' investment and the assets of the Group.

The Board recognises the importance of Internal Audit and has a whistle blowing policy in place. The policy provides well-defined and accessible channels in the Group through which employees may raise concerns about improper conduct within the Group and no adverse report has been received to date.

In connection with the Dual Listing, the Company is required by the KRX pursuant to the Korean Commercial Code to appoint an internal auditor to audit the financial statements and business of the Company. The shareholders of the Company have approved the appointment of Mr Su Bu Gan as an Internal Auditor of the Company and to hold office for a term of three (3) years. However, with the various audit issues that have arisen, Mr Su could not complete his internal control review and have since left the Company. The Special Auditors were subsequently appointed by the Audit Committee to carry out a special review into the financial affairs of the Group and delivered their findings to the Company on 3 May 2012.

The Special Auditors have recommended that the Board carries out an independent review on the effectiveness of the control environment and the internal controls of the Group, including, but not limited to, controls over the bank balances and payments made by the Group, the Group's banking borrowings as well as the approval process and payments of capital expenditure of the Group.

# CORPORATE GOVERNANCE

In this regard, the Board has accepted the recommendation of the Special Auditors and is in the process of appointing an independent internal auditor to carry out an independent review of the internal controls (consisting of financial, operational and compliance controls as well as risk management) of the Group to ensure that they are adequate to safeguard the shareholders' investment, the Company's assets and ensure the integrity of the Company's financial statements. Upon the completion of the aforesaid review, the Board would then appoint an appropriate internal auditor to replace Mr Su.

Further to the Special Auditors' findings, the Audit Committee has also recommended replacing Mr Cao as the legal representative of the Company's 3 operating subsidiaries and Mr Chen as General Manager of Fujian New Huawei Fibre Dyeing Co., Ltd. eventually. However, they will remain in their current positions during this transition period to facilitate the Company's preparation of its resumption of trading proposal as set out in the Company's announcement of 4 May 2012.

As mentioned, the composition of the Board and the senior management of the Group is likely to change when the new investor takes a controlling stake in the Company. In such an event, the internal controls of the Group may change further to meet the requirements of the aforesaid new controlling shareholder.

Pending the aforesaid, the Board and the AC are presently not in a position to express an opinion over the adequacy of the Company's internal controls in addressing financial, operational and compliance risks.

## **(D) COMMUNICATION WITH SHAREHOLDERS**

### **Communication with Shareholders**

***Principle 14 : Companies should engage in regular, effective and fair communication with shareholders.***

***Principle 15 : Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.***

The Company believes that a high standard of disclosure is key to raising the level of corporate governance. Quarterly results are published through the SGXNET and news releases. All information of the Company's new initiatives are disseminated via SGXNET.

The Company does not practise selective disclosure. Price sensitive information is publicly released and results and annual reports are announced or issued within the mandatory period. All shareholders of the Company receive the annual report and notice of AGM. The notice of AGM is also advertised in the newspapers.

The Company welcomes the views of the shareholders on matters concerning the Company and encourages shareholders' participation at the AGM. The chairmen of the AC, NC and RC of the Company are present at the general meetings to answer questions from the shareholders. The external auditors are also present to assist the directors in addressing any relevant queries by shareholders.

Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

The Company Secretary, with the assistance of his representative, prepares minutes of shareholders' meetings, which incorporates substantial comments or queries from shareholders and responses from the board and management. These minutes are available to shareholders upon request.



# CORPORATE GOVERNANCE

## (E) DEALINGS IN SECURITIES

The Company has issued a guideline on share dealings to all directors and employees of the Group which sets out the code of conduct on transactions in the Company's shares by these persons, the implications of insider trading and general guidance on the prohibition against such dealings.

In line with Rule 1207(19) of the Listing Manual, the Company has adopted a compliance code to issue a notification to all officers of the Company informing them that they should not deal in the securities of the Company during the periods commencing one month before the announcement of the Company's full-year results and two weeks before the Company's quarterly results until after the announcement. They are also discouraged from dealing in the Company's shares on short term considerations. No notification on closed window period has been issued since the suspension of the Company's shares on 25 March 2011.

The Board confirms that for the financial year ended 31 December 2011, the Company has complied with Rule 1207(19) of the Listing Manual.

## (F) INTERESTED PERSON TRANSACTION

As a listed company on the SGX-ST, the Company is required to comply with Chapter 9 of the Listing Manual of the SGX-ST on interested person transactions. To ensure compliance with Chapter 9, the Company has taken the following steps:

- The Board meets to review if the Company will be entering into any interested person transaction. If the Company intends to enter into an interested person transaction, the Board of Directors will ensure that the Company complies with the requisite rules under Chapter 9.
- The AC has met and will meet regularly to review if the Company will be entering into an interested person transaction, and if so, the AC ensures that the relevant rules under Chapter 9 are complied with.

Interested person transaction carried out during the second, third and fourth quarters of FY2011 are as follows:

<b>Name of Interested person</b>	<b>Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920)</b>	<b>Aggregate value of all interested person transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than \$100,000)</b>
Rental expenses paid to Fujian Huawei (Note 1)	RMB3,000,000.00	N.A.
Advance from director (Note 2)	RMB300,000.00	N.A.

# CORPORATE GOVERNANCE

Note:

1. Rental expenses paid to Fujian Huawei Chemical Fibre Dyeing Co. ("Fujian Huawei"), which was owned by our Directors, Messrs. Cao Xiangbin (99.8%) and Chen Fen (0.2%), were made with reference to the terms of a lease agreement entered into on normal commercial terms and on an arm's length basis as the annual rental of approximately RMB12.0 million was based on an independent market rental valuation. Mr Cao Xiangbin and Mr Chen have subsequently disposed off their respective shareholding in Fujian Huawei to an independent third party on 28 March 2011 and such transaction is no longer considered as an interested person transaction as at the financial year ended 31 December 2011.
2. Prior to 31 March 2011, Mr Chen Fen extended a loan of RMB300,000 to the Group for its working capital purposes. The outstanding balance has been repaid as at 31 December 2011 and such transaction is no longer considered as an interested person transaction as at the financial year ended 31 December 2011.

## **(G) MATERIAL CONTRACTS**

Save as disclosed under "Material Contracts" on the section of General and Statutory Information of the Prospectus dated 9 September 2009, the Executive Summary of the SA Report, in the Directors' Report and these financial statements, no material contracts to which the Company or any subsidiary, is a party and which involve the interests of the chief executive officer, directors or controlling shareholders, were subsisting at the end of the financial year or entered into since the date of listing of the Company.

## **(H) RISK MANAGEMENT**

The Management reviews regularly the Group's business and operational activities to identify areas of significant financial and business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategies. The management will report such financial and business risks (if any) to the Board on a regular basis. In addition, the external auditors carry out in the course of their statutory audit, a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls. Material non-compliance and internal control weaknesses noted during their audit are reported to the AC together with their recommendations.

Further to the findings of the Special Auditors, the Board is in the process of appointing an independent internal auditor to review its risks management procedures to mitigate its financial and business risks, where appropriate.

# CORPORATE GOVERNANCE

## (I) USE OF PROCEEDS

The Company refers to the net IPO proceeds amounted to \$78.2 million raised from its listing on SGX. Application of net IPO Proceeds to the Group (as at 31 December 2011) are as follow:

Intended Use	Amount Allocated (\$'million)	Amount Utilised (\$'million)	Balance Amount (\$'million)
Expand the Group's production capacity of premium differentiated fine polyester yarn	33.0	18.1	14.9
Expand the Group's downstream fabric manufacturing business	35.0	35.0	-
Strengthen the Group's "华港" (HuaGang) and "大华威" (DaHuaWei) brand recognition and expand the Group's sales and marketing network	3.0	2.0	1.0
Increase the Group's product development capabilities	3.0	2.0	1.0
General working capital	4.2	4.2	-
Total	78.2	61.3	16.9

The utilisation of the IPO proceeds to-date is in accordance with the intended use as disclosed in the prospectus and circular to shareholders, and the Company will make further announcements as and when there are other material disbursements.

On 25 January 2011, the Company raised 210 billion Won ("KDR Proceeds") from the issuance of 30 million Korean Depository Receipts ("KDRs") listed on the KRX which yielded a net proceeds of approximately RMB1,139 million. As the listing of KDRs occurred in the first quarter ended 31 March 2011 and the Special Auditors have commented in their report that bulk of the accounting records and supporting documents for the period prior to 1 April 2011 are not available, the Company is unable to ascertain the extent and purpose for which such KDR Proceeds have been utilised during that said period. However, it would appear from the SA Report that approximately RMB482 million of the KDR Proceeds could have been used during the aforesaid period to inter alia pay for capital expenditure and repay bank loans. Due to the unavailability of accounting books and records, the Special Auditors were not able to establish the actual use of the aforesaid funds. As at 1 April 2011, approximately RMB657 million of the KDR Proceeds remains in the account of the Group. Since then, the Company has spent approximately RMB315 million of the KDR Proceeds.

# DIRECTORS' REPORT

The directors present their report to the members together with the audited consolidated financial statements of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") and its subsidiaries (collectively the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2011.

## Directors

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

Cao Xiangbin  
Chen Fen  
Chan Wai Meng  
Tham Wan Loong Jerome  
Chan Kam Loon  
Kwak Kyung Jik

## Arrangements to enable directors to acquire shares and debentures

Except as disclosed in this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

Name of director	Direct interest	
	At beginning of the year	At end of the year
Ordinary shares of the Company		
Tham Wan Loong Jerome	100,000	100,000

Name of director	Deemed interest	
	At beginning of the year	At end of the year
Ordinary shares of the Company		
Cao Xiangbin <sup>(1)</sup>	850,900,000	850,900,000

<sup>(1)</sup> Mr Cao Xiangbin holds 99.8% of share capital of China Success Group (International Holdings) Limited. As such, Mr Cao Xiangbin is deemed to have interests in all the shares held by China Success Group (International Holdings) Limited in the Company and that held by the Company in its subsidiaries.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2012.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.



# DIRECTORS' REPORT

## Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

## Options

No options were issued by the Company or its subsidiaries during the year. As at 31 December 2011, there were no options on the unissued shares of the Company or its subsidiaries which are outstanding.

## Audit Committee

The audit committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap 50, the Singapore Exchange Securities Trading Limited ("SGX-ST")'s Listing Manual, the Best Practice Guide of the SGX-ST, and the Code of Corporate Governance.

The functions performed by the Audit Committee are disclosed in the Report on Corporate Governance.

## Internal Control

As discussed in the section entitled "Internal Controls and Internal Audit" of the Report on Corporate Governance at page 22 and based on the reasons set out therein, the Board and the Audit Committee are presently not in a position to express an opinion on the adequacy of the Company's internal controls addressing financial, operational and compliance risks.

However, the Board is in the process of appointing an independent internal auditor to carry out an independent review of the internal controls (consisting of financial, operational and compliance controls as well as risk management) of the Group to ensure that they are adequate to safeguard the shareholders' investment, the Company's assets and ensure the integrity of the Company's financial statements.

Upon the completion of the independent review, the Board would look into the recommendations made by the aforesaid internal auditor and take the necessary steps to further strengthen and enhance the internal controls of the Group.

## Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors

Tham Wan Loong Jerome  
Director

Chen Fen  
Director

8 June 2012

## STATEMENT BY DIRECTORS

We, Tham Wan Loong Jerome and Chan Kam Loon, being two Directors of China Gaoxian Fibre Holdings Ltd, do hereby state on behalf of the Directors that:-

- (i) the Board was unable to express any true and fair view over the financial statements of the Company and the Group for the financial year ended 31 December 2010 for inter alia the reasons set out in FY2010 Annual Report;
- (ii) although the Special Auditors have completed their review into the financial affairs of the Group, they were not able to obtain the bulk of the Group's accounting records and supporting documents for the period prior to 1 April 2011 and hence, they were not able to reconstruct the Group's accounts as at 31 December 2010 and 31 March 2011 based on the limited information available;
- (iii) while the 31 March 2011 balance sheets and the financial statements for the second, third and fourth quarters of FY2011 (collectively "FY2011 Financial Statements") had been prepared by the Company based on information and supporting documents available to the current management (comprising inter alia Interim CEO Tham Wan Loong Jerome and CFO Chen Guo Dong) after they took over the finance functions and records of the Group in May 2011, the Company is unable to ascertain the impact (if any) of items (i) and (ii) above on FY2011 Financial Statements; and
- (iv) Cao Xiangbin (in his capacity as the legal representative of the subsidiaries of the Company in the People's Republic of China) has provided a negative assurance to the Board that for the periods covered by the FY2011 Financial Statements, save as disclosed to the Board, he has not (in his capacity as legal representative or otherwise):
  - (a) entered into or authorised the entry into of any legal contract or binding arrangement for and on behalf of any Group Company;
  - (b) incurred or authorised the incurring of any borrowing, expenditure, capital commitment, liability, obligation or indebtedness for and on behalf of any Group Company;
  - (c) approved or authorised the execution of any transaction for and on behalf of any Group Company;
  - (d) paid or authorised the payment of any sum for and on behalf of any Group Company;
  - (e) granted or authorised the granting of any loan for and on behalf of any Group Company;
  - (f) repaid or authorised the repayment of any loan, borrowing or funding of any Group Company; and
  - (g) acquired or disposed of or authorised the acquisition or disposal of any property or asset of the Group.

Subject to items (i) to (iv) above, the Directors are of the opinion that the financial statements for the year ended 31 December 2011 are drawn up so as to give a true and fair view of the statement of affairs of the Company and of the Group as at 31 December 2011 and of the results of the business, changes in equity and cash flows of the Group for the year then ended.

Based on the current information available and to the best of the Directors' knowledge, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors

Tham Wan Loong Jerome  
Director

Chan Kam Loon  
Director

8 June 2012

# INDEPENDENT AUDITORS' REPORT

For the financial year ended 31 December 2011

## **To the members of China Gaoxian Fibre Fabric Holdings Ltd. Report on the Financial Statements**

We were engaged to audit the accompanying consolidated financial statements of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out on pages 32 to 79, which comprise the balance sheets of the Group and the Company as at 31 December 2011, the statements of changes in equity of the Group and the Company, the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

During the financial year ended 31 December 2010, we identified inconsistencies between the information contained in the Group's accounting records with respect to cash at banks and the information independently obtained from banks. We have not been able to obtain satisfactory explanations from the management of the Group concerning these inconsistencies identified. These inconsistencies brought into question the proper accounting for the cash and bank balances and the corresponding transactions in the Group, including the completeness and reliability of transactions recorded in the Group's accounting records and other information and documents, for the financial year ended 31 December 2010.

As described in Note 2.1 to the financial statements, Special Auditors were appointed by the Audit Committee of the Company to conduct an independent investigation into the Group's financial affairs. The Special Auditors were unable to obtain satisfactory explanations for, inter alia, unaccounted bank balances and bank liabilities as at 31 December 2010 as well as the unaccounted net outflow of cash for the period from 1 January 2011 to 31 March 2011. It was noted that the bulk of the accounting records prior to 1 April 2011 are not available and therefore, the Company is unable to reconstruct the accounts of the Group as at 1 January 2011 or prepare the financial information for the period from 1 January 2011 to 31 March 2011.

The Special Auditor's report describes the significant level of influence and/or control in the management and decision making process of the Group enjoyed by Mr. Cao Xiangbin, the founder and controlling shareholder of the Group. The Special Auditor's report also describes the reasonable expectations that Mr. Cao has knowledge of unaccounted cash discrepancies, and his approval of payments and transactions giving rise to these discrepancies. Considering Mr. Cao's continuing involvement in the Group's affairs during 2011 as the legal representative of the PRC subsidiaries and the Group's controlling shareholder, we are not able to rely on representations provided by management and audit evidence in general.

We were unable to perform the necessary audit procedures to satisfy ourselves as to the appropriateness, completeness and accuracy of the financial statements of the Group and the Company for the financial year ended 31 December 2011.

# INDEPENDENT AUDITORS' REPORT

For the financial year ended 31 December 2011

## *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

## **Report on Other Legal and Regulatory Requirements**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

## **Other Matter**

A disclaimer audit opinion was rendered in respect of the financial statements for the financial year ended 31 December 2010 in the auditors' report dated 14 October 2011. This arose from our inability to obtain satisfactory explanations from the management of the Group concerning the inconsistencies identified in the bank balances which led to the inability to complete the necessary audit procedures to determine the appropriateness of the other account balances in the financial statements of the Group as at and for the financial year ended 31 December 2010.

Ernst & Young LLP

Public Accountants and  
Certified Public Accountants  
Singapore

8 June 2012



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

		Group	
	Note	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
<b>Revenue</b>	4	586,510	1,933,011
Cost of sales		(578,390)	(1,343,986)
<b>Gross profit</b>		8,120	589,025
<b>Other items of income</b>			
Financial income	9	2,438	2,800
Other income	5	16,430	17,448
<b>Other items of expense</b>			
Other expenses	5	(2,911)	(1,634)
Selling and distribution expenses		(2,880)	(8,259)
General and administrative expenses		(55,929)	(31,959)
Financial expense	9	(6,709)	(3,528)
Exceptional loss	2.1	–	(980,000)
<b>Loss before tax and impairment loss of property, plant and equipment</b>	6	(41,441)	(416,107)
Impairment loss of property, plant and equipment		(172,695)	–
<b>Loss before tax</b>		(214,136)	(416,107)
Income tax	10	(2,367)	(155,833)
<b>Net loss attributable to equity holders of the Company</b>		(216,503)	(571,940)
<b>Other comprehensive income, net of tax</b>			
Foreign currency translation		–	2,636
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>		(216,503)	(569,304)
<b>Loss per share attributable to equity holders of the Company (RMB cents)</b>			
Basic and diluted	11	(10.61)	(39.72)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# BALANCE SHEETS

As at 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

	Note	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12	530,598	588,039	–	–
Land use rights	13	226,299	230,352	–	–
Prepayments	14	354,764	174,357	–	–
Investment in subsidiaries	15	–	–	1,089,421	762,507
		1,111,661	992,748	1,089,421	762,507
<b>Current assets</b>					
Inventories	16	40,769	90,424	–	–
Prepayments	14	10,748	1,326	4,855	–
Trade and other receivables	17	27,586	48,405	720,621	276,994
Bank deposits pledged	18	27,375	29,071	–	–
Cash and short term deposits	19	351,596	67,889	271,438	3,799
		458,074	237,115	996,914	280,793
<b>TOTAL ASSETS</b>		<b>1,569,735</b>	<b>1,229,863</b>	<b>2,086,335</b>	<b>1,043,300</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Provision for income tax		640	28,306	–	–
Short term bank loans	20	90,500	167,000	–	–
Trade and other payables	21	211,108	257,090	1,092	93,517
Other liabilities and provision	22	30,541	31,610	5,933	5,465
		332,789	484,006	7,025	98,982
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>125,285</b>	<b>(246,891)</b>	<b>989,889</b>	<b>181,811</b>
<b>Non-current liability</b>					
Deferred tax liability	23	–	29,425	–	–
<b>TOTAL LIABILITIES</b>		<b>332,789</b>	<b>513,431</b>	<b>7,025</b>	<b>98,982</b>
<b>NET ASSETS</b>		<b>1,236,946</b>	<b>716,432</b>	<b>2,079,310</b>	<b>944,318</b>
Share capital	24	2,062,712	849,835	2,062,712	849,835
PRC statutory reserve fund	25	–	128,777	–	–
Merger reserve	25	(369,563)	(378,684)	–	–
Share grant reserve	25	29,445	29,445	29,445	29,445
Translation reserve	25	–	–	–	–
Accumulated (losses)/profit		(485,648)	87,059	(12,847)	65,038
<b>TOTAL EQUITY</b>		<b>1,236,946</b>	<b>716,432</b>	<b>2,079,310</b>	<b>944,318</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,569,735</b>	<b>1,229,863</b>	<b>2,086,335</b>	<b>1,043,300</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

	Share capital (Note 24) RMB'000	PRC statutory reserve fund (Note 25) RMB'000	Merger reserve (Note 25) RMB'000	Share grant reserve (Note 25) RMB'000	Accumu- lated profits/ (losses) RMB'000	Total equity RMB'000
<b>Group 2011</b>						
Opening balance at 1 April 2011	2,062,712	–	(369,563)	29,445	(269,145)	1,453,449
Loss net of tax represents total comprehensive income for the period	–	–	–	–	(216,503)	(216,503)
Closing balance at 31 December 2011	2,062,712	–	(369,563)	29,445	(485,648)	1,236,946

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

	Share capital (Note 24) RMB'000	PRC statutory reserve fund (Note 25) RMB'000	Merger reserve (Note 25) RMB'000	Share grant reserve (Note 25) RMB'000	Translation reserve (Note 25) RMB'000	Accumulated profits/ (losses) RMB'000	Total equity RMB'000
<b>Group 2010</b>							
Opening balance at 1 January 2010	849,835	85,604	(378,684)	29,445	(1,960)	739,542	1,323,782
Loss for the year	–	–	–	–	–	(571,940)	(571,940)
Foreign currency translation representing total other comprehensive income	–	–	–	–	2,636	–	2,636
Total comprehensive income for the year	–	–	–	–	2,636	(571,940)	(569,304)
 <u>Contribution by and distributions to owners</u>							
Dividends on ordinary shares (Note 31)	–	–	–	–	–	(36,886)	(36,886)
Transfer to statutory reserve fund	–	43,173	–	–	–	(43,173)	–
Total transactions with owners in their capacity as owners	–	43,173	–	–	–	(80,059)	(36,886)
 Effect of adjustments arising from change in functional currency	–	–	–	–	(676)	(484)	(1,160)
Closing balance at 31 December 2010	849,835	128,777	(378,684)	29,445	–	87,059	716,432

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

	Share capital (Note 24) RMB'000	Share grant reserve (Note 25) RMB'000	Translation reserve (Note 25) RMB'000	Accumu- lated profits RMB'000	Total equity RMB'000
<b>Company 2011</b>					
Opening balance at 1 April 2011	2,062,712	29,445	–	7,301	2,099,458
Loss net of tax represents total comprehensive income for the period	–	–	–	(20,148)	(20,148)
Closing balance at 31 December 2011	2,062,712	29,445	–	(12,847)	2,079,310

<b>Company 2010</b>					
Opening balance at 1 January 2010	849,835	29,445	32,564	71,494	983,338
Loss for the year	–	–	–	(6,530)	(6,530)
Foreign currency translation represents other comprehensive income for the year, net of tax	–	–	5,556	–	5,556
Total comprehensive income for the year	–	–	5,556	(6,530)	(974)

## Contributions by and distributions to owners

Dividends on ordinary shares (Note 31) representing total contributions and distributions to owners	–	–	–	(36,886)	(36,886)
Effect of adjustments arising from change in functional currency	–	–	(38,120)	36,960	(1,160)
Closing balance at 31 December 2010	849,835	29,445	–	65,038	944,318

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

		Group	
	Note	1.4.2011 to 31.12.2011 RMB'000	2010 RMB'000
Loss before tax		(214,136)	(416,107)
<i>Adjustments:</i>			
Allowance for doubtful receivables		73	–
Amortisation of land use rights		2,573	972
Amortisation of land preparation cost		2,538	423
Bad debts written off		535	–
Depreciation of property, plant and equipment		31,102	54,055
Impairment of property, plant and equipment		172,695	–
Interest expense		6,709	3,528
Interest income		(2,438)	(2,800)
Inventories written down		3,239	–
Loss on disposal of property, plant and equipment		60	1,119
Foreign exchange difference		2,012	1,476
Operating profit/(loss) before working capital changes		4,962	(357,334)
<i>Decrease/(increase) in:</i>			
Inventories		12,388	10,950
Prepayments		17,782	(68,238)
Trade and other receivables		(9,563)	277,013
<i>Increase/(decrease) in:</i>			
Trade and other payables		(106,713)	4,456
Other liabilities		(12,523)	3,647
Cash flows used in operations		(93,667)	(129,506)
Interest income received		2,438	2,800
Interest expense paid		(6,709)	(3,528)
Income taxes paid		(2,473)	(134,157)
<b>Net cash flows used in operating activities</b>		<b>(100,411)</b>	<b>(264,391)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	A	(98,959)	(169,738)
Proceeds from disposal of property, plant and equipment		–	5,741
Purchase of land use rights	13	–	(219,373)
<b>Net cash flows used in investing activities</b>		<b>(98,959)</b>	<b>(383,370)</b>
<b>Cash flows from financing activities</b>			
Repayment of loan from a director		(300)	–
Proceeds from short term bank loans		100,500	225,000
Repayment of short term bank loans		(251,916)	(120,000)
Decrease in bank deposits pledged		6,017	12,172
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(145,699)</b>	<b>117,172</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2011

(Amounts expressed in Renminbi unless otherwise stated)

Note	Group	
	1.4.2011 to 31.12.2011 RMB'000	2010 RMB'000
<b>Net decrease in cash and cash equivalents</b>	(345,069)	(530,589)
Effect of exchange rate changes on cash and cash equivalents	(2,012)	–
Cash and cash equivalents as at 1 April 2011 and 1 January 2010	698,677	598,478
<b>Cash and cash equivalents at end of financial year</b>	19 351,596	67,889

## Notes to consolidated cash flow statement

### A. Property, plant and equipment

	Group	
	1.4.2011 to 31.12.2011 RMB'000	2010 RMB'000
Additions to property, plant and equipment	97,530	224,081
Less: Prepayments made in prior year	(84,576)	(42,823)
Amount included in other payables	(101,366)	(11,520)
Add: Prepayments made in current year	187,371	–
Net cash outflow for purchase of property, plant and equipment	98,959	169,738

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 1. Corporate information

### 1.1 The Company

China Gaoxian Fibre Fabric Holdings Ltd. (the “Company”) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST). The immediate and ultimate holding company is China Success Group (International Holdings) Limited.

In January 2011, the Company was admitted to the official list of KRX Kospi market. The Company issued 600,000,000 new ordinary shares at SGD 0.4053 per share in connection with its initial public offering. The net proceeds arising thereon amounted to approximately RMB1,213,000,000.

The registered office of the Company is at 9 Battery Road, #15-01 Straits Trading Building, Singapore 049910 and the principal places of business of the Group are located at Industrial Area of Balidian Town, Wuxing District, Huzhou City, Zhejiang Province and No. 574, Caozhu Village Industry Zone, Tantou Town, Changle City, Fujian Province.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are as disclosed in Note 15 to the financial statements.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

#### Background

##### Financial year ended 31 December 2010

In March 2011, certain discrepancies were noted in respect of the balances of bank accounts of the two principal subsidiaries of the Group namely, Zhejiang Huagang Polyester Industrial Co., Ltd (“Zhejiang Huagang”) and Fujian New Huawei Fibre Dyeing Co., Ltd (“New Huawei”) as at 31 December 2010. Special Auditors were then appointed by the Audit Committee to conduct an independent investigation into the Group’s financial affairs, including its cash and bank balances, trade receivables balances as well as the capital expenditure of the Group incurred during the financial year ended 31 December 2010 and the financial quarter ended 31 March 2011.

Based on the interim findings of the Special Auditors announced by the Company on 30 June 2011 and other information obtained then by the current management (comprising inter alia interim CEO, Jerome Tham and CFO Chen Guo Dong), certain adjustments were subsequently made to the financial statements pertaining to cash at banks, bank deposits pledged, bank borrowings, bills payables, land use rights and property, plant and equipment. The net effect of these adjustments amounting to RMB 980,000,000 has been taken to the Statement of Comprehensive Income for the financial year ended 31 December 2010 as “Exceptional loss”.

As the Statutory Auditors were unable to complete the necessary audit procedures to determine the appropriateness of the account balances in the financial statements of the Group as at and for the financial year ended 31 December 2010, a disclaimer audit opinion was rendered by the Statutory Auditors in respect of the financial statements for the financial year ended 31 December 2010 in the auditors’ report dated 14 October 2011.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

#### 1 January 2011 to 31 March 2011 (1QFY2011)

The bulk of the Group's accounting books and records for the period prior to 1 April 2011 could not be located. Hence, the Special Auditors were unable to reconstruct the Group's accounts as at 31 December 2010 and 31 March 2011 based on the limited information provided to them. While the Company is seeking to recover these missing records, the chance of recovering the aforesaid records within a reasonable amount of time may be remote. Moreover, even if the aforesaid missing records could be recovered, there is no assurance that these financial records would be complete or that all material supporting documents and information required for reconstructing the Group's accounts as at 31 December 2010 and 31 March 2011 would be available.

#### Balance sheets as at 31 March 2011

The 31 March 2011 balance sheets had been prepared based on information and supporting documents available to the current management (comprising inter alia interim CEO, Jerome Tham and CFO, Chen Guo Dong) after they took over the finance functions and records of the Group in May 2011.

#### Special Investigation

The Special Auditors released their report on 3 May 2012 which stated that they were unable to obtain satisfactory explanations for, inter alia, unaccounted bank balances and bank liabilities as at 31 December 2010 of approximately RMB978 million, as well as the unaccounted net outflow of cash of approximately RMB 366 million for the period from 1 January 2011 to 31 March 2011.

It was noted that the bulk of the accounting records prior to 1 April 2011 are not available and therefore, the Company is unable to reconstruct the accounts of the Group as at 1 January 2011 or prepare the financial information for the period from 1 January 2011 to 31 March 2011.

In view of the matters described in the preceding paragraphs, the Company is also unable to ascertain the impact, if any, on the balance sheet as at 31 December 2010, 1 January 2011 and 31 December 2011, and there is no assurance that there are no material facts not known to the current management that may require the financial statements to be further adjusted.

#### Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Group's principal operations are conducted in the PRC and thus the consolidated financial statements are presented in Renminbi ("RMB"), being the presentation currency of the Group. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on 1 January 2011. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

### 2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 107 <i>Disclosures – Transfers of Financial Assets</i>	1 July 2011
Amendments to FRS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012
Amendments to FRS 1 <i>Presentation of Items of Other Comprehensive Income</i>	1 July 2012
Revised FRS 19 <i>Employee Benefits</i>	1 January 2013
Revised FRS 27 <i>Separate Financial Statements</i>	1 January 2013
Revised FRS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2013
FRS 110 <i>Consolidated Financial Statements</i>	1 January 2013
FRS 111 <i>Joint Arrangements</i>	1 January 2013
FRS 112 <i>Disclosure of Interests in Other Entities</i>	1 January 2013
FRS 113 <i>Fair Value Measurements</i>	1 January 2013
Amendments to FRS 107 <i>Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities</i>	1 January 2013
Amendments to FRS 32 <i>Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities</i>	1 January 2014

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

### 2.4 *Basis of consolidation and business combinations*

#### Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation and business combinations (cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

#### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Consolidation of the subsidiaries in the People's Republic of China ("PRC") is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the PRC statutory financial statements of the subsidiary, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.5 *Functional currency*

The Group's consolidated financial statements are presented in RMB, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### *Transactions and balances*

Transactions in foreign currencies are measured in RMB and are recorded on initial recognition at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of reporting period are recognised in the profit or loss.

### 2.6 *Subsidiaries*

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

### 2.7 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.16. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.7 Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Production and office buildings	20 to 30
Plant and machinery	10 to 15
Office equipment and furniture	5 to 8
Motor vehicles	5 to 8

Construction-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

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

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

### 2.8 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.

### 2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.9 Impairment of non-financial assets (cont'd)

Impairment losses are recognised in the profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

### 2.10 Financial assets

#### Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

#### Subsequent measurement

##### *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

#### Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

### 2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and unpledged bank deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition is accounted for as follows:

- Raw materials – purchase cost on a weighted average basis.
- Work-in-progress and finished goods – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.15 Financial liabilities

#### Initial recognition and measurement

Financial liabilities are recognised when, plus only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities not carried at fair value through profit or loss, plus directly attributable transaction costs.

#### Subsequent measurement

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

#### Derecognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.16 Borrowing costs

Borrowing costs are capitalised as part of a qualifying asset if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.17 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if the right is not explicitly specific in an arrangement.

#### *As lessee*

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

### 2.18 Employee benefits

#### *Defined contribution plans - pension benefits*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Pension contributions are recognised as an expense in the period in which the related service is performed.

### 2.19 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when they payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

#### *(a) Sale of goods and scrap materials*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### *(b) Interest income*

Interest income is recognised using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.20 Taxes

#### (a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### (b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.20 Taxes (cont'd)

#### (b) *Deferred tax (cont'd)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

#### (c) *Value-added-tax ("VAT")/Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the 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 VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

### 2.21 Segment reporting

For management purposes, the Group is organised into operating segments based on their products. The management of the Company regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 26 to the financial statements, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.22 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.23 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### 2.24 Related parties

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
  - (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (i) 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 or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.24 Related parties (cont'd)

- (vi) The entity is controlled or jointly controlled by a person identified in (a); and
- (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).

### 2.25 Share-based compensation

Share based payment transactions in which the Group receives services as consideration for its own equity instruments to be settled by its shareholders are accounted for as equity-settled share-based compensation. Where the fair value of the services received cannot be estimated reliably, the Group measures the fair value of the services received by reference to the fair value of the share-based payment made to acquire the services. The compensation is charged to the profit or loss over the duration of the services and a corresponding share grant reserve is recognised.

## 3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### 3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

#### (a) Income taxes

The Group has exposure to income taxes in the PRC and Singapore. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be 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 and deferred tax provisions in the year in which such determination is made. The carrying amount of the Group's tax payable and deferred tax liabilities at 31 December 2011 were RMB 640,000 and RMB Nil (2010: RMB 28,306,000 and RMB 29,425,000) respectively.

The PRC subsidiaries make tax submissions to the local tax authorities in accordance with interpretations and local practices. Management has assessed and concluded that all tax submissions are appropriate and except for the outstanding payments so determined, there are no further tax and related liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 3. Significant accounting estimates and judgements (cont'd)

### 3.1 Judgements made in applying accounting policies (cont'd)

#### (b) Impairment of non-financial assets

Certain production equipment of the Group with carrying amount of RMB 43,418,000 were idle for the financial period from 1 April 2011 to 31 December 2011. The Group has performed a fair value of the equipment as at 30 June 2011. Based on the valuation report by Marsh (Hong Kong) Limited, management has provided for impairment loss of RMB 172,695,000 as at 30 June 2011. Management has assessed and concluded that taking into consideration the depreciation charge of the equipment for the period from 1 July 2011 to 31 December 2011, the carrying amount of the equipment approximates their fair value as at 31 December 2011. Accordingly, no further impairment loss has been recognised subsequent to 30 June 2011.

#### (c) Land use rights

As at 31 December 2011, included in land use rights of the Group is prepayment of RMB 55,988,000 relating to a plot of state owned land in the PRC, in respect of which there is no formal agreement signed with the relevant authorities and no land title has been obtained. The directors are of the opinion that there is no recoverability issue in respect of this prepayment despite the lack of formal agreement being entered into.

### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

#### *Useful lives of production plant and machinery*

The cost of production plant and machinery is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production plant and machinery to be 10 to 15 years. This is a common life expectancy applied in the manufacturing industry. The carrying amount of the Group's production plant and machinery as at 31 December 2011 was approximately RMB 396,133,000 (2010: RMB 558,924,000). Changes in the expected level of usage and technological developments could impact the economic useful life of the production plant and machinery; therefore future depreciation charges could be revised.

## 4. Revenue

Revenue represents sales of goods net of discounts and value-added-tax ("VAT").

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 5. Other income/(expenses)

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Other income		
- gain on sale of scrap materials	16,030	16,120
- government grant	400	–
- foreign exchange gain	–	1,241
- others	–	87
	<u>16,430</u>	<u>17,448</u>
Other expenses		
- foreign exchange loss	(2,506)	–
- donations	–	(300)
- loss on disposal of property, plant and equipment	(60)	(1,119)
- others	(345)	(215)
	<u>(2,911)</u>	<u>(1,634)</u>

## 6. Loss before tax

This is determined after charging/ crediting items in Note 5 to the financial statements and the following:

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Audit fees:		
- Auditors of the Company***	2,816	3,219
- Other auditors	90	90
Non-audit fees:		
- Auditors of the Company***	272	199
- Other auditors	6,529	–
Allowance for doubtful receivables (Note 17)	73	–
Amortisation of land use rights (Note 13)	2,573	972
Amortisation of cost of preparation of land	2,538	423
Bad debts written off	535	–
Operating lease expenses	9,083	12,000
Depreciation of property, plant and equipment (Note 12)	31,102	54,055
Directors' fees	1,077	978
Inventories recognised as an expense in cost of sales (Note 16)	577,081	1,337,589
Listing expenses	–	4,304
Other fees in respect of the Special Investigation	4,416	–
Employee compensation** (Note 7)	<u>32,050</u>	<u>23,238</u>

\*\* Includes remuneration of key management personnel as disclosed in Note 8 to the financial statements.

\*\*\* Auditors of the Company relate to Ernst & Young LLP Singapore and Ernst & Young HanYoung

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 7. Employee compensation

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Salaries, wages and bonuses	31,134	18,878
Welfare expense	602	46
Labour union expense	2	218
Employer's contribution to defined contribution plans	312	4,096
	<u>32,050</u>	<u>23,238</u>

## 8. Related party transactions

- (a) During the financial year ended 31 December 2011, in addition to those related party information disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties, on terms agreed between the respective parties:

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Advances from Fujian Huawei	7,420	—
Operating lease expenses to Fujian Huawei	(9,000)	(12,000)
Repayment of advances from Fujian Huawei	(6,510)	(60,343)
Repayment of loans from a director	(300)	—

- (b) *Assets pledged for a related party*

As at 31 December 2010, certain of the Group's production machinery are pledged as security for certain short term bank loans and bills payable to banks to Fujian Huawei Chemical Fibre Dyeing Co. ("Fujian Huawei"), a related party of the Group as the director and controlling shareholder of the Company, Mr. Cao Xiangbin held a 99.8% interest in the issued and paid up capital of Fujian Huawei. On 28 March 2011, Mr. Cao has disposed off his entire interest in Fujian Huawei and Fujian Huawei is no longer a related party. There are no assets pledged for Fujian Huawei as at 31 December 2011.

- (c) *Compensation of key management personnel*

In addition, related party transactions with key management personnel are as follows:

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Salaries and other short term employee benefits, representing total compensation to key management personnel	<u>9,139</u>	<u>3,688</u>
Comprises amounts paid to:		
- Directors of the Company	2,344	2,153
- Other key management personnel	6,795	1,535
	<u>9,139</u>	<u>3,688</u>

The remuneration of key management personnel is determined by the board of directors having regards to the performance of individuals and market trends.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 9. Financial income/(expense)

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Interest income from loans and receivables:		
- bank balances	2,438	2,800
Interest expense on:		
- short term bank loans	(6,709)	(3,528)

## 10. Income tax

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Current income tax		
- Current year income tax expense	2,367	145,069
Deferred income tax		
- Temporary differences	—	10,764
Income tax expense recognised in the consolidated statement of comprehensive income	2,367	155,833

Relationship between tax expense and accounting profit

A reconciliation between tax expense and the product of loss before tax multiplied by the applicable tax rate for the financial years ended 31 December 2011 and 2010 is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Loss before tax	(214,136)	(416,107)
Tax at the applicable domestic tax rates	(50,513)	(102,268)
Tax effects of:		
- Effect of tax exemption	—	(269)
- Expenses not deductible for tax purposes	48,235	247,606
- Withholding tax on unremitted earnings of subsidiaries	—	10,764
- Deferred tax assets not recognised	4,645	—
Income tax expense recognised in the consolidated statement of comprehensive income	2,367	155,833

China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") is subjected to the tax rate of 17% for year of assessment 2011 (YA2011: 17%).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 10. Income tax (cont'd)

Zhejiang Huagang and New Huawei are subjected to tax rate of 25% for the financial year ended 31 December 2011 (2010: 12.5% for Zhejiang Huagang and 25% for New Huawei).

Huaxiang Gaoxian and Huaxiang China are subjected to tax rate of 16.5% and 25% respectively.

## 11. Loss per share

The basic loss per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares as presented below:

	Group	
	1.4.2011 to 31.12.2011 RMB'000	1.1.2010 to 31.12.2010 RMB'000
Loss for the year attributable to owners of the parent (RMB'000)	(216,503)	(571,940)
Weighted average number of ordinary shares ('000)	2,040,000	1,440,000

Diluted earnings per share is similar to basic loss per share as there were no potential dilutive ordinary shares existing during the financial year.

## 12. Property, plant and equipment

	Production and office buildings RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction -in-progress RMB'000	Total RMB'000
<b>Group Cost</b>						
At 1 January 2010	72,703	436,988	1,106	5,273	67,014	583,084
Additions	–	143,291	447	1,636	78,707	224,081
Disposals	–	(9,812)	(144)	(309)	–	(10,265)
Transfers	50,214	69,624	(36)	–	(119,802)	–
At 31 December 2010	122,917	640,091	1,373	6,600	25,919	796,900
Balance as at 1 April 2011	125,915	617,814	1,412	5,666	99,653	850,460
Additions	4,822	586	86	910	91,126	97,530
Disposals	–	–	–	(149)	–	(149)
Transfers in/(out)	–	59,324	–	–	(59,324)	–
At 31 December 2011	130,737	677,724	1,498	6,427	131,455	947,841



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 12. Property, plant and equipment (cont'd)

	Production and office buildings RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction -in-progress RMB'000	Total RMB'000
<b>Accumulated depreciation</b>						
At 1 January 2010	(4,211)	(149,914)	(376)	(3,710)	–	(158,211)
Depreciation charge for the year	(6,274)	(47,042)	(179)	(560)	–	(54,055)
Disposals	–	3,357	17	31	–	3,405
At 31 December 2010 and 1 January 2011	(10,485)	(193,599)	(538)	(4,239)	–	(208,861)
Balance as at 1 April 2011	(11,286)	(198,433)	(605)	(3,211)	–	(213,535)
Depreciation charge for the year	(4,243)	(26,121)	(167)	(571)	–	(31,102)
Impairment charge	(36,346)	(135,899)	(244)	(206)	–	(172,695)
Disposals	–	–	–	89	–	89
At 31 December 2011	(51,875)	(360,453)	(1,016)	(3,899)	–	(417,243)
<b>Net carrying amount</b>						
At 31 December 2011	78,862	317,271	482	2,528	131,455	530,598
At 31 December 2010	112,432	446,492	835	2,361	25,919	588,039

### (a) Assets pledged as security

As at 31 December 2011, certain of the Group's production and office buildings and production machinery are pledged as security for the Group's short term bank loans and bills payable to banks as disclosed below.

	Short term bank loans (Note 20)		Bills payable to banks (Note 21)	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
<b>Carrying amount of assets pledged as security</b>				
Production and office buildings	56,694	106,432	56,694	93,282
Plant and machinery	–	47,763	–	–

There are no assets pledged for a related party as at 31 December 2011. As at 31 December 2010, certain short term bank loans and bills payable to banks of Fujian Huawei, are secured by certain production machinery of the Group with carrying amounts of approximately RMB 41,518,000 and RMB 72,299,000 respectively as disclosed in Note 8(a) to the financial statements. These have been fully repaid during the financial year ended 31 December 2011.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 12. Property, plant and equipment (cont'd)

### (b) Construction-in-progress

As at 31 December 2011, the Group's construction-in-progress relates to plant and machinery and production and office buildings with carrying amounts of approximately RMB 50,346,000 (2010: RMB 25,919,000) and RMB 81,109,000 (2010: RMB Nil) respectively.

### (c) Fully depreciated assets

As at 31 December 2011, the Group's fully depreciated assets that are still in use mainly relates to production equipment, office equipment and motor vehicles. The gross carrying amounts are approximately RMB 3,020,000 (2010: RMB 2,629,000), RMB 304,000 (2010: RMB 163,000) and RMB 1,298,000 (2010: RMB 2,073,000), respectively.

### (d) Idle assets

As at 31 December 2011, the Group's temporarily idle assets mainly relate to production equipment with carrying amounts of approximately RMB 43,418,000 (2010: Nil).

## 13. Land use rights

	Group	
	2011	2010
	RMB'000	RMB'000
<b>Cost</b>		
At 1 January 2010 and 1 April 2011	232,466	13,555
Additions	–	219,373
At 31 December	232,466	232,928
<b>Accumulated amortisation</b>		
At 1 January 2010 and 1 April 2011	(3,594)	(1,604)
Amortisation charge for the period/year	(2,573)	(972)
At 31 December	(6,167)	(2,576)
<b>Net carrying amount</b>		
At 31 December	226,299	230,352

As at 31 December 2011, the Group has land use rights over two plots of state owned land in the PRC where the Group's PRC manufacturing and storage facilities reside. The land use rights have a weighted average remaining tenure of 39 years (2010: 40 years).

Included in land use rights is prepayment of RMB 55,988,000 relating to a plot of state owned land in the PRC, in respect of which there is no formal contract or agreement signed with the relevant local authorities and no land title has been obtained. The prepayments are made in connection with the second phase of the expansion plan to construct a new integrated facility for the Polyester Direct Spinning production lines and an office building. The lease amortisation will commence upon the receipt of the land title.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 13. Land use rights (cont'd)

### *Assets pledged as security*

#### Short term bank loans

As at 31 December 2011, the Group's land use right with a carrying amount of approximately RMB 11,409,000 (2010: RMB 11,680,000) are pledged as security for the Group's short term bank loans as disclosed in Note 20 to the financial statements.

#### Bills payable to banks

As at 31 December 2011, the Group's land use right with a carrying amount of approximately RMB Nil (2010: RMB 11,680,000) are pledged as security for the Group's bills payable to banks as disclosed in Note 21 to the financial statements.

## 14. Prepayments

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Non-current</u>				
Prepayments relating to acquisition of property, plant and equipment	187,371	84,000	—	—
Prepayments relating to land preparation cost	167,393	90,357	—	—
	354,764	174,357	—	—
<u>Current</u>				
Prepayments to trade suppliers	5,793	220	—	—
Prepaid operating expenses	4,955	1,106	4,855	—
	10,748	1,326	4,855	—

Land preparation cost relates to cost of relocation of the farmers, land tiling and pavement of roads and other infrastructure work. The land preparation cost is amortised in the income statement on a straight line over the land lease term of 50 years.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 15. Investment in subsidiaries

	Company	
	2011	2010
	RMB'000	RMB'000
<b>Unquoted shares, at cost</b>		
At 1 January 2010 and 1 April 2011	1,089,421	727,680
Increased investment in subsidiaries	–	34,827
	<u>1,089,421</u>	<u>762,507</u>

The Company had the following subsidiaries as at 31 December:

Name of company	Country of incorporation	Principal activities	Effective equity interest held by the Group	
			2011 %	2010 %
<b>Held by the Company</b>				
Zhejiang Huagang Polyester Industrial Co., Ltd ("Zhejiang Huagang")	PRC	Production and sales of various specifications of premium differentiated fine polyester yarn, warp knit fabric and chemical fibre materials	100	100
Huaxiang China Gaoxian International Holdings Limited ("Huaxiang Hong Kong")	Hong Kong	Investment holding company	100	100
<b>Held by Huaxiang Hong Kong</b>				
Huaxiang (China) Premium Fibre Co., Ltd. ("Huaxiang China")	PRC	Production and sale of premium differentiated fine polyester yarn and polyester chips	100	100
<b>Held by Zhejiang Huagang</b>				
Fujian New Huawei Fibre Dyeing Co., Ltd ("New Huawei")	PRC	Production and sale of premium differentiated fine polyester yarn and polyester chips	100	100

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 16. Inventories

	Group	
	2011 RMB'000	2010 RMB'000
<b>Balance sheet:</b>		
Raw materials	9,268	60,794
Work-in-progress	3,144	1,220
Finished goods	28,357	28,410
Total inventories	40,769	90,424
<b>Consolidated statement of comprehensive income:</b>	<b>1.4.2011 to 31.12.2011</b>	<b>1.1.2010 to 31.12.2010</b>
Inventories recognised as an expense in cost of sales	577,081	1,337,589
Inclusive of the following charge:		
- Inventories written down	3,239	–

## 17. Trade and other receivables

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade receivables, net	14,096	41,586	–	–
Deposits	1,000	1,000	–	–
Other receivables	7,106	2,098	–	1,794
Bills receivables	5,384	–	–	–
Amounts due from holding company	–	3,721	–	3,721
Amounts due from subsidiaries	–	–	720,621	101,479
Dividend receivable from subsidiary	–	–	–	170,000
Total trade and other receivables	27,586	48,405	720,621	276,994
Add: Cash and short term deposits (Note 19)	378,971	96,960	271,438	3,799
Total loans and receivables	406,557	145,365	992,059	280,793

(i) Trade receivables

Trade receivables are non-interest bearing and are normally settled on 0 to 90 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

(ii) Deposits

The Group does not have any deposits which are past due as at balance sheet date.

(iii) Related party balances

- Amounts due from subsidiaries are unsecured, non-interest bearing, repayable upon demand and are to be settled in cash.
- Amounts due from holding company are unsecured, non-interest bearing, repayable upon demand and are to be settled in cash.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 17. Trade and other receivables (cont'd)

### (iv) Receivables that are past due but not impaired

The Group has trade receivables amounting to \$462,000 (2010: nil) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	<b>Group</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Lesser than 30 days	–	–
30 – 60 days	–	–
61 – 90 days	–	–
91 days – 120 days	21	–
More than 120 days	441	–
	<u>462</u>	<u>–</u>

The Company has no receivables that are past due but not impaired for the financial years ended 31 December 2011 and 2010.

### (v) Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	<b>Group</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables – nominal amounts	73	–
Less: Allowance for impairment	(73)	–
	<u>–</u>	<u>–</u>
Movement in allowance accounts:		
At 1 January	–	–
Charge for the period/year	73	–
At 31 December	<u>73</u>	<u>–</u>

The Company has no receivables that are impaired for the financial years ended 31 December 2011 and 2010.

### (vi) All trade and other receivables are denominated in RMB.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 18. Bank deposits pledged

Bank deposits pledged relate to deposits of cash held in designated bank accounts as security for bills payable facilities as disclosed in Note 21 to the financial statements. Bank deposits pledged are denominated in RMB.

The weighted average effective interest rate on bank deposits pledged, with a maturity of 90 days and 180 days, was 0.5% per annum (2010: 1.96% and 2.23% per annum) for the financial year ended 31 December 2011.

## 19. Cash and bank balances

Cash and bank balances consist of cash on hand, cash at banks and unpledged bank deposits. Cash and cash equivalents included in the consolidated statements of cash flows comprise the following balance sheet amounts:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cash and bank balances	378,971	96,960
Less: Bank deposits pledged (Note 18)	(27,375)	(29,071)
Cash and short term deposits	351,596	67,889

Cash and bank balances have an effective interest rate of 0.36% to 0.47% per annum (2010: 0.12% to 0.48% per annum) for the financial year ended 31 December 2011.

Cash and bank balances denominated in the currency which give rise to the Group's exposure to foreign currency risk are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Singapore Dollar	3,796	3,892	3,748	3,786
United States Dollar	68,746	15	453	13
Korean Won	153	—	153	—

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 20. Short term bank loans

	Group	
	2011 RMB'000	2010 RMB'000
Secured loans from banks:		
Bank of Communications <sup>1</sup>	–	32,000
Industrial and Commercial Bank of China <sup>2</sup>	35,500	45,000
Bank of China <sup>3</sup>	20,000	25,000
Agricultural Bank of China <sup>4</sup>	15,000	25,000
China CITIC Bank <sup>5</sup>	20,000	30,000
Shanghai Pudong Development Bank <sup>6</sup>	–	10,000
	<u>90,500</u>	<u>167,000</u>

<sup>1</sup> As at 31 December 2010, these four short term bank loans bore interest at 5.56% per annum and were secured by pledge of certain property, plant and equipment (Note 12), land use rights (Note 13) and corporate guarantee from Fujian Huawei.

<sup>2</sup> As at 31 December 2011, these four (2010: three) secured short term bank loans bear interest at a rate of 6.06% to 6.41% (2010: 4.16% to 5.56%) per annum and are secured by pledge of certain property, plant and equipment (Note 12) and land use rights (Note 13).

<sup>3</sup> As at 31 December 2011, these four (2010: two) secured short term bank loans bear interest at a rate of 5.31% to 7.22% (2010: 5.31% to 6.11%) per annum and are secured by pledge of certain property, plant and equipment (Note 12) and land use rights (Note 13).

<sup>4</sup> As at 31 December 2011, these four (2010: two) secured short term bank loans bear interest at a rate of 6.89% to 7.26 (2010: 5.31% to 5.81%) per annum and are secured by pledge of certain property, plant and equipment (Note 12) and land use rights (Note 13).

<sup>5</sup> As at 31 December 2011, these three (2010: one) secured short term bank loans bear interest at a rate of 6.97% to 7.54% (2010: 5.84%) per annum and are secured by pledge of certain property, plant and equipment (Note 12) and land use rights (Note 13).

<sup>6</sup> As at 31 December 2010, this secured short term bank loan bore interest at a rate of 6.11% per annum and was secured by pledge of certain property, plant and equipment (Note 12) and land use rights (Note 13).

The maturity dates of all short term bank loans are within twelve months from the financial year end.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 21. Trade and other payables

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables	15,533	–	–	–
Other payables	26,434	8,066	–	–
Bills payable to banks	56,940	117,835	–	–
Payables for the acquisition of property, plant and equipment	101,366	11,520	–	–
Dividends payables	–	36,886	–	36,886
Due to subsidiaries (non-trade)	–	–	492	–
Due to a related party (non-trade)	10,235	–	–	1,663
Due to a director (non-trade)	600	82,783	600	54,968
Total trade and other payables	211,108	257,090	1,092	93,517
Add:				
- Other liabilities (Note 22)	30,541	7,360	5,933	5,465
- Short term bank loans (Note 20)	90,500	167,000	–	–
Total financial liabilities carried at amortised cost	332,149	431,450	7,025	98,982

### Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' terms and are denominated in RMB.

### Due to holding company/ a related party/ a director (non-trade)/ subsidiaries

Amounts due to holding company/ a related party/ a director are non-trade balances, which are unsecured, non-interest bearing and repayable on demand.

### Other payables

	Group	
	2011 RMB'000	2010 RMB'000
Loans from third parties	7,940	–
VAT and other operating tax payable	17,345	7,066
Others	1,149	1,000
Total	26,434	8,066

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 21. Trade and other payables (cont'd)

### *Bills payable to banks*

As at 31 December 2011, bills payable to banks are secured by short term deposits, certain production and office buildings, production machinery, construction-in-progress and land use rights of the Group as disclosed below and corporate guarantee from Fujian Huawei (2010: corporate guarantee from an unrelated third party and personal guarantee by a director) as disclosed in Note 8 to the financial statements.

	Group	
	2011 RMB'000	2010 RMB'000
Bank deposits pledged (Note 18)	27,375	29,071
Carrying amount of production and office buildings pledged (Note 12)	56,694	93,282
Carrying amount of land use rights pledged (Note 13)	–	11,680

## 22. Other liabilities and provision

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Advances from customers	6,311	–	–	–
Accrued operating expense	24,230	7,360	5,933	5,465
Other liabilities	30,541	7,360	5,933	5,465
Provision for PRC statutory welfare fund (Note A)	–	24,250	–	–
Other liabilities and provision	30,541	31,610	5,933	5,465

### *Note A*

The PRC statutory welfare fund can only be used for special bonuses and collective welfare benefits to staffs and workers. The PRC statutory welfare fund may not be reversed or distributed to the owner. The PRC statutory welfare fund, due to its nature, is classified as a provision in the consolidated balance sheet and correspondingly debited to employee compensation in the consolidated statement of comprehensive income. After 1 January 2008, PRC companies are no longer required to provide for such amounts. The subsidiaries plan to fully utilise the balance within the next two years.

Movements in the provision for PRC statutory welfare fund during the financial year is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January 2010 and 1 April 2011	–	25,982
Less: Utilisation of PRC statutory welfare fund	–	(1,732)
At 31 December	–	24,250

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 23. Deferred tax liability

	Group	
	2011 RMB'000	2010 RMB'000
Deferred tax liability arising on undistributed earnings of subsidiaries	–	29,425

On 22 February 2008, the State Administration of Taxation of China issued a circular Caishui [2008] No. 001, which states that distribution of dividends after 1 January 2008 from profits prior to 1 January 2008 will be exempt from withholding tax on distribution to foreign investors. As a result, there are no deferred liabilities arising from undistributed profits of the PRC subsidiaries accumulated up till 31 December 2007.

As at 31 December 2011 and 2010, deferred tax liability arises from withholding tax on certain undistributed earnings of the PRC subsidiaries to foreign shareholders.

Movement in the deferred tax liabilities during the financial year is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
<b>Balance sheet:</b>		
Deferred tax liabilities arising from withholding tax on 25% of the unremitted earnings of subsidiaries		
At 1 January 2010 and 1 April 2011	–	18,661
Charge to consolidated statement of comprehensive income (Note 10)	–	10,764
At 31 December	–	29,425

### Unrecognised temporary differences relating to investments in subsidiaries

As at 31 December 2011, no deferred tax liability has been recognised for withholding tax that would be payable on 100% (2010: 75%) of the undistributed earnings of the PRC subsidiaries as the Group has determined that portion of the undistributed earnings of its PRC subsidiaries will not be distributed in the foreseeable future. Such temporary difference for which no deferred tax has been recognised aggregate RMB Nil (2010: RMB 479,771,000) and the deferred tax liability is estimated at RMB Nil (2010: RMB 29,425,000).

### Deferred income tax related to other comprehensive income

As at 31 December 2011, there is no deferred income tax (2010: RMB Nil) related to other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 24. Share capital

	Group and Company			
	2011		2010	
	No. of shares issued '000	RMB'000	No. of shares issued '000	RMB'000
<u>Issued and fully paid ordinary shares</u>				
At 1 January	1,440,000	849,835	1,440,000	849,835
Issuance of 600,000,000 (2010: 320,000,000) new ordinary shares at SGD 0.4053 (2010: SGD 0.26) per share pursuant to the initial public offering of the Company	600,000	1,241,847	–	–
Share issue expense	–	(28,970)*	–	–
At 31 December	2,040,000	2,062,712	1,440,000	849,835

\* Included in the share issue expense are fees paid to auditors amounting to RMB 540,000.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

## 25. Other reserves

### (a) PRC statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China ("PRC"), the subsidiaries are required to make appropriate to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January 2010 and 1 April 2011	–	85,604
Appropriation to reserves	–	43,173
At 31 December	–	128,777



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 25. Other reserves (cont'd)

### (b) Merger reserve

This represents the difference between the consideration paid and the paid-in capital of the subsidiaries when business combination of entities under common control was accounted for by applying the pooling of interest method.

### (c) Share grant reserve

The holding company of the Company, China Success Group (International Holdings) Limited ("China Success"), entered into an agreement with an external consultant in January 2008 in relation to consultancy services rendered to the Company in connection with its initial public offering. Under the agreement, China Success agreed to, upon the Company receiving its eligibility to list on Singapore Exchange Securities Trading Limited, allot and issue to the consultant 1.5% of the enlarged share capital of the Company at listing.

The directors have estimated the fair value of the identifiable services to be provided by the consultant to be approximately RMB 29,445,000. The directors have adopted the Earnings Capitalisation method under market approach in the valuing of the business, based on the EV/EBITDA multiple of comparable companies in similar industry. In addition, the directors estimated the duration of the consultancy agreement to be 18 months from the date of the agreement.

The fair value of such services rendered by the consultant recognised by the Group in the consolidated statement of comprehensive income is as follows:

	<b>Group and Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
At 1 January / 31 December	29,445	29,445

As at 31 December 2009, the shares have been fully allotted and issued to the consultant.

### (d) Translation reserve

The foreign currency translation reserve represented exchange differences arising from the translation of the financial statements of the Company at its then functional currency (Singapore dollar), which was different from that of the Group's presentation currency (Rmb).

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
At 1 April 2011 and January 2010	–	(1,960)	–	32,564
Translation difference	–	2,636	–	5,556
Effects of adjustments arising from change in functional currency	–	(676)	–	(38,120)
At 31 December	–	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 26. Segment information

### *Reporting format*

For management purposes, the Group is organised into business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products produced, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's business is organised into five business segments, namely:

(i) *Fully Drawn Yarn ("FDY")*

Fully Drawn Yarn is a melt-spun continuous filament yarn which has been highly oriented, either by drawing at a high draw ratio or by spinning at a high wind-up speed such that there is little residual drawability.

(ii) *Drawn Textured Yarn ("DTY")*

Drawn Textured Yarn is a type of yarn produced using the draw texturing method to create a unique texture on the yarn.

(iii) *Blended Yarn ("BY")*

Blended Yarn is a composite yarn made from two or more constituent materials.

(iv) *Triangular-fibre Yarn ("TFY")*

Triangular-fibre Yarn is spun from polyester filaments which have a reflective surface due to its triangular cross sectional shape similar to that of silk.

(v) *Warp Knit Fabric ("WKF")*

Warp Knit Fabric is made through the process of warp-knitting.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 26. Segment information (cont'd)

The following table presents revenue, results and other information regarding the Group's business segments for the financial year ended 31 December 2011:

	FDY RMB'000	DTY RMB'000	BY RMB'000	TFY RMB'000	WKF RMB'000	Total RMB'000
<b>Group 2011</b>						
<b>Revenue</b>						
Sales to external customers	331,116	59,961	103,341	9,986	82,106	586,510
<b>Results</b>						
Segment gross profit/(loss)	1,235	792	(1,974)	(191)	8,258	8,120
<b>2010</b>						
<b>Revenue</b>						
Sales to external customers	214,850	293,354	587,298	285,201	552,308	1,933,011
<b>Results</b>						
Segment gross profit	61,777	92,255	165,595	100,200	169,198	589,025

### Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income and expenses, financial income and expenses and income tax expense.

The allocation of the group assets and liabilities attributable to individual segments is not presented as the information is not provided to the chief operating decision maker.

### Geographical information

There is no geographical information provided as the Group's revenue and non-current assets are generated from/located in the PRC only.

### Information about major customers

During the financial year, two (2010: none) of the Group's customers separately accounted for more than 10% of the Group's sales, derived from FDY, BY, DTY and WKF segments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 27. Commitments

### (a) Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Commitment in respect of:		
Purchase of production machinery	980,578	810,569

### (b) Operating lease commitments – as lessee

In addition to the land use rights disclosed in Note 13, the Group has an operating lease agreement in respect of factory and office premises utilised by New Huawei owned by Fujian Huawei, in the PRC for a period of three years, commencing from 1 November 2011 to 31 October 2014, for a lease amount of approximately RMB 12,000,000 per annum. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

Minimum lease payments, including the amortisation of land use rights and cost of preparation of land recognised as an expense in profit or loss for the financial year ended 31 December 2011 amounted to RMB 14,437,000 (2010: RMB 13,395,000).

Future minimum rentals payable under non-cancellable operating leases (excluding land use rights) as at the end of the reporting period are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Not later than 1 year	12,000	10,000
Later than 1 year but not later than 5 years	22,000	–
	34,000	10,000

## 28. Financial risk management objectives and policies

The Group's principal financial instruments comprise short term bank loans, bills payable to banks, cash and short term deposits. The main purpose of these financial instruments is to provide funds for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risks (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

It is, and has been throughout the years under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 28. Financial risk management objectives and policies (cont'd)

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from cash at bank and short term bank loans. The Group obtains additional financing through bank borrowings at a mix of fixed and floating interest rate. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's and Company's interest rate exposure is also disclosed in Notes 18, 19 and 20 to the financial statements.

### *Sensitivity analysis for interest rate risk*

As at 31 December 2011, if RMB interest rates had been 100 basis points (2010: 100 basis points) lower/higher with all other variables held constant, the Group's loss after tax would have been RMB 2,189,000 (2010: RMB Nil) higher, arising mainly as a result of lower/higher interest income and expense on cash at banks and short term bank loans respectively. The assumed movement in basis points for interest rate sensitivity analysis is based on observable market environment.

### *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets. In particular, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

### *Analysis of financial instruments by remaining contractual maturities*

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 28. Financial risk management objectives and policies (cont'd)

### *Liquidity risk (cont'd)*

	2011		2010	
	One year or less RMB'000	Total RMB'000	One year or less RMB'000	Total RMB'000
<b>Group</b>				
<b>Financial assets:</b>				
Trade and other receivables	27,586	27,586	48,405	48,405
Bank deposits pledged	27,375	27,375	–	–
Cash and short-term deposits	351,596	351,596	96,960	96,960
Total undiscounted financial assets	406,557	406,557	145,365	145,365
<b>Financial liabilities:</b>				
Trade and other payables	211,108	211,108	257,090	257,090
Other liabilities and provision	30,541	30,541	7,360	7,360
Loans and borrowings	90,500	90,500	167,000	167,000
Total undiscounted financial liabilities	332,149	332,149	431,450	431,450
Total net undiscounted financial (liabilities)/ assets	74,408	74,408	(286,085)	(286,085)
<b>Company</b>				
<b>Financial assets:</b>				
Trade and other receivables	720,621	–	276,994	276,994
Cash and short-term deposits	271,438	–	3,799	3,799
Total undiscounted financial assets	992,059	–	280,793	280,793



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 28. Financial risk management objectives and policies (cont'd)

### *Liquidity risk (cont'd)*

	2011		2010	
	One year or less RMB'000	Total RMB'000	One year or less RMB'000	Total RMB'000
<b>Company</b>				
<b>Financial liabilities:</b>				
Trade and other payables	1,092	–	93,517	93,517
Other liabilities and provision	5,933	–	5,465	5,465
Total undiscounted financial liabilities	7,025	–	98,982	98,982
Total net undiscounted financial assets	985,034	–	181,811	181,811

### *Foreign currency risk*

The Group and the Company hold cash denominated in foreign currencies for working capital purposes. At the end of the reporting date, such foreign currency balances are mainly in KRW, SGD and USD, amounting to RMB 153,000 (2010: Nil), RMB 3,796,000 (2010: RMB 3,892,000) and RMB 68,746,000 (2010: RMB 15,000) respectively.

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

Exchanges of RMB for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The following table demonstrates the sensitivity of the Group's cash and bank balances denominated in USD, KRW and SGD held by a PRC subsidiary whose functional currency is RMB, to a reasonably possible change in the USD, KRW and SGD exchange rates against the RMB, with all other variables held constant.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 28. Financial risk management objectives and policies (cont'd)

### *Foreign currency risk (cont'd)*

		Group Profit net of tax / Equity	
		2011	2010
		RMB'000	RMB'000
USD/RMB	- strengthened 3% (2010: N.A.)	2,062	—
	- weakened 3% (2010: N.A.)	(2,062)	—
KRW/RMB	- strengthened 3% (2010: N.A.)	5	—
	- weakened 3% (2010: N.A.)	(5)	—
SGD/RMB	- strengthened 3% (2010: 3%)	114	117
	- weakened 3% (2010: 3%)	(114)	(117)

### *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets, the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

### Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets as disclosed in Note 17 to the financial statements.

### Credit risk concentration profile

At the balance sheet date, two (2010: none) of the customers account for more than 5% of the Group's trade receivables.

### Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 17 (Trade and other receivables).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 29. Fair value of financial instruments

### *Determination of fair value*

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables, short term bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

## 30. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the financial year ended 31 December 2011.

As disclosed in Note 25 to the financial statements, the PRC subsidiaries are required by relevant laws and regulation of the PRC to contribute to and maintain a non-distributable PRC statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities.

This externally imposed capital requirement has been complied with by the PRC subsidiaries for the financial year ended 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's priority is to keep gearing ratio between 25% to 45%. The Group includes within net debt, short term bank loans, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes equity attributable to the equity holders less the abovementioned restricted PRC statutory reserve fund.

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Short term bank loans (Note 20)	90,500	167,000
Trade and other payables (Note 21)	211,108	257,090
Other liabilities (Note 22)	30,541	7,360
Total debt	332,149	431,450
Less: Cash and cash equivalents	(351,596)	(67,889)
Net (cash)/debt	(19,447)	363,561
Equity attributable to the then equity holders	1,236,946	716,432
Less: PRC statutory reserve fund	—	(128,777)
Total capital	1,236,946	587,655
<b>Capital and net debt</b>	<b>1,217,499</b>	<b>951,216</b>
<b>Gearing ratio</b>	<b>N.A.</b>	<b>38%</b>

\* As at 31 December 2011, there is no gearing ratio as the Group is in a net cash position.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2011

## 31. Dividends

	Group	
	2011	2010
	RMB'000	RMB'000
<i>Declared during the financial year:</i>		
Dividends on ordinary shares:		
- Interim exempt (one-tier) dividend for 2010: SGD 0.50 cents per share	–	36,886

## 32. Events occurring after the reporting period

### Proposed New Investment into the Company

Subsequent to 31 December 2011, the Company has entered into a Non-binding Term Sheet ("Term Sheet") with Dymon Asia Special Opportunities Fund ("Dymon"). Pursuant to the Term Sheet, Dymon has agreed to subscribe for 270,000,000 new shares in the Company. In consideration of Dymon's investment, China Success Limited (an investment holding company wholly-owned by Cao Xiangbin) shall transfer 510,000,000 shares in the Company.

After the aforesaid restructuring, China Success Limited's shareholding in the Company will reduce to approximately 14.8% and Dymon will hold approximately 33.8% of the enlarged share capital of the Company, thereby becoming the new controlling shareholder of the Company.

The proposed new investment is subject to the satisfaction of certain conditions precedent as announced by the company on 4 May 2012.

In conjunction with issue of new shares, the Company proposes to issue free warrants to all shareholders (including Dymon and China Success) in the ratio of one free warrant for every two existing shares, at the exercise price of S\$0.10 per share.

The parties are in the midst of preparing a definitive agreement.

## 33. Authorisation of financial statements for issue

The audited consolidated financial statements for the financial year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 8 June 2012.

# SHAREHOLDINGS STATISTICS

As at 22 May 2012

## SHARE CAPITAL

Issued and fully paid up capital	: 426,093,215.00
Number of shares	: 2,040,000,000
Class of shares	: Ordinary shares
Voting rights	: One vote per share

## DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO OF SHAREHOLDERS	%	NO OF SHARES	%
1 - 999	—	—	—	—
1,000 - 10,000	703	25.94	4,763,000	0.23
10,001 - 1,000,000	1,958	72.25	174,735,768	8.57
1,000,001 AND ABOVE	49	1.81	1,860,591,232	91.20
<b>TOTAL</b>	<b>2,710</b>	<b>100</b>	<b>2,040,000,000</b>	<b>100</b>

## TWENTY LARGEST SHAREHOLDERS

	NAME	NO OF SHARES	%
1	CHINA SUCCESS GROUP (INTERNATIONAL HOLDINGS) LIMITED	850,900,000	41.71
2	CITIBANK NOMINEES SINGAPORE PTE LTD	611,625,860	29.98
3	HSBC (SINGAPORE) NOMINEES PTE LTD	137,651,000	6.75
4	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	29,447,000	1.44
5	LOW GEOK LIN JUDITH	26,355,000	1.29
6	OCBC SECURITIES PRIVATE LTD	25,628,000	1.26
7	PROSPERITY STEEL UNITED SINGAPORE PTE LTD	20,670,000	1.01
8	RAFFLES NOMINEES (PTE) LTD	18,860,232	0.92
9	DBS NOMINEES PTE LTD	13,842,200	0.68
10	UOB KAY HIAN PTE LTD	12,463,000	0.61
11	DMG & PARTNERS SECURITIES PTE LTD	11,757,000	0.58
12	MAYBANK KIM ENG SECURITIES PTE. LTD.	10,749,000	0.53
13	UNITED OVERSEAS BANK NOMINEES PTE LTD	6,941,000	0.34
14	BANK OF SINGAPORE NOMINEES PTE LTD	6,825,000	0.33
15	KANG HWI WAH	6,435,000	0.32
16	DB NOMINEES SINGAPORE PTE LTD	5,330,880	0.26
17	PHILLIP SECURITIES PTE LTD	4,629,000	0.23
18	LONG YUIN LEE	4,500,000	0.22
19	WONG KAI HONG	3,150,000	0.15
20	MERRILL LYNCH (SINGAPORE) PTE LTD	3,100,060	0.15
	<b>TOTAL:</b>	<b>1,810,859,232</b>	<b>88.76</b>

# SHAREHOLDINGS STATISTICS

As at 22 May 2012

## SUBSTANTIAL SHAREHOLDERS AS AT 22 MAY 2012

(As recorded in the Register of Substantial Shareholders)

Name of Substantial Shareholder	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Cao Xiangbin <sup>(1)</sup>	–	–	850,900,000	41.71
China Success Group (International Holdings) Limited	850,900,000	41.71	–	–
Daewoo Securities	–	–	166,186,280	8.15

### Notes:-

- <sup>(1)</sup> Mr Cao Xiangbin is the legal and beneficial shareholder of China Success Group (International Holdings) Limited, holding 99.8% shares. Mr Cao is deemed interested in the shares held by China Success Group (International Holdings) Limited in the capital of the Company.

## SHAREHOLDINGS IN THE HAND OF PUBLIC

The percentage of shareholdings in the hands of the public was approximately 50.14% and hence the Company has complied with Rule 723 of the SGX-ST Listing Manual.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Guild, Suntec City Guild House, 3 Temasek Boulevard, #05-001, Suntec City Mall, Singapore 038983 on Friday, 29 June 2012 at 10.00 a.m., for the following purposes:

## AS ROUTINE BUSINESS:

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2011 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect Mr Tham Wan Loong Jerome, a Director retiring pursuant to Article 114 of the Company's Articles of Association. [See Explanatory Notes (i)] **(Resolution 2)**
3. To re-elect Mr Chan Kam Loon, a Director retiring pursuant to Article 114 of the Company's Articles of Association. [See Explanatory Notes (ii)] **(Resolution 3)**
4. To approve the payment of Directors' fees of S\$210,000 for the financial year ending 31 December 2012, to be paid quarterly in arrears. **(Resolution 4)**
5. To re-appoint Messrs Ernst & Young LLP as the auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

By Order of the Board

Abdul Jabbar Bin Karam Din  
Chan Hooi Tze  
Joint Company Secretaries

Singapore, 14 June 2012

## Explanatory Notes:

- (i) Mr Tham Wan Loong Jerome will, upon re-election as a Director of the Company, remain as the Interim Chief Executive Officer and a member of the Audit Committee, Remuneration Committee and Nominating Committee.
- (ii) Mr Chan Kam Loon will, upon re-election as a Director of the Company, remain as Chairman of Audit Committee and Nominating Committee and a member of the Remuneration Committee and will be considered independent.

## Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. A member of the Company which is a corporation is entitled to appoint its authorized representatives or proxies to vote on its behalf.
3. The instrument appointing a proxy must be lodged at the registered office of the Company at 9 Battery Road #15-01 Straits Trading Building Singapore 049910 not less than forty-eight (48) hours before the time fixed for the Annual General Meeting.



**CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.**

(Incorporated in Singapore)

(Registration No. 200817812K)

**PROXY FORM****ANNUAL GENERAL MEETING****IMPORTANT:**

1. For Investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, \_\_\_\_\_

(Name) of \_\_\_\_\_

(Address) being a member/members of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company"), hereby appoint:

Name	Address	NRIC or Passport No.	Percentage of Shareholdings (%)

and/or failing him/her (delete as appropriate)

Name	Address	NRIC or Passport No.	Percentage of Shareholdings (%)

or failing him/her the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held at The Guild, Suntec City Guild House, 3 Temasek Boulevard, #05-001, Suntec City Mall, Singapore 038983 on Friday, 29 June 2012 at 10.00 a.m., and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Meeting.

No.	Resolutions	For	Against
	<b>ORDINARY BUSINESS</b>		
1.	Adoption of Reports and Audited Accounts <b>(Resolution 1)</b>		
2.	Re-election of Mr Tham Wan Loong Jerome as a Director <b>(Resolution 2)</b>		
3.	Re-election of Mr Chan Kam Loon as a Director <b>(Resolution 3)</b>		
4.	Payment of Directors' Fees for the financial year ending 31 December 2012, to be paid quarterly in arrears <b>(Resolution 4)</b>		
5.	Re-appointment of Messrs Ernst & Young LLP as the Auditors of the Company <b>(Resolution 5)</b>		

\* Please indicate your vote "For" or "Against" with a tick (✓) within the box provided.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2012

\_\_\_\_\_  
Signature(s) of member(s)  
or Common Seal of Corporate Shareholder

Total Number of Shares held	
--------------------------------	--

\* If no person is named in the space above, the Chairman of the Annual General Meeting shall be my/our proxy to vote, for or against the Resolutions to be proposed at the Annual General Meeting as indicated below, for me/us and on my/our behalf at the Annual General Meeting and at any adjournment thereof.

## **IMPORTANT (PLEASE READ THE NOTES)**

### **Notes:**

1. Please insert the total number of shares held by you. If you have shares registered in your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
3. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 9 Battery Road #15-01 Straits Trading Building, Singapore 049910 not less than 48 hours before the time set for the meeting.
4. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no such proportion or number is specified the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its officer or attorney duly authorised.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, Cap. 50.

### **General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.





**CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.**

9 Battery Road, #15-01 Straits Trading Building, Singapore 049910

(Company Registration No. 200817812K)

[www.chinagaoxian.com](http://www.chinagaoxian.com)