



FORELAND FABRICTECH HOLDINGS LIMITED

(Incorporated in Bermuda with Company Registration No. 39151)

RESPONSE TO SGX QUERIES ON ANNOUNCEMENT OF UNAUDITED FIRST QUARTER FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2011 (“1Q 2011”)

The Board of Directors of Foreland Fabrictech Holdings Limited (“the Company”, together with its subsidiaries, “the Group”) wishes to announce its responses to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in connection with the announcement made by the Company on 9 May 2011, with regard to the unaudited first quarter financial statements for the three months ended 31 March 2011 (“1Q 2011”).

Query 1

The Company disclosed on Page 1 that “Gross Profit” for 3 months ended 31 March 2011 is RMB 44m and “Gross Profit” for 3 months ended 31 March 2010 was RMB 4.7m. The “Gross Profit Margin” therefore increased from 11.2% in 1Q2010 to 28.9% in 1Q2011.

We note from Page 8 of the financial results that the improvement in gross profit margin was mainly due to an increase in the sales of existing functional fabric that have a better profit margin.

Please provide further details on what functional fabric is and to explain the reasons why gross profit margin of this fabric exceeded 28.9% compared to the previous average gross profit margin of 11.2%. Please also disclose the percentage of sales which are attributed to this fabric in 1Q2011 as compared to 1Q2010.

Company’s response to Query 1

Functional fabric is a fabric that has special properties and serves functions such as moisture and air breathability, UV protection and chlorine resistance. A list of our range of functional fabric products can be found on Page 3 of our FY2010 Annual Report.

We are able to produce quality functional fabric because we have: i) established collaborations with technology partners; ii) strong internal R&D capabilities; iii) advanced production facilities and equipments; and iv) good quality assurance control and management.

Functional fabric is used in higher grade textile products. In 1Q 2010, demand for high grade textile products was sluggish as a result of the negative impact of the global financial turmoil and credit crunch on the textile market. As a result, market demand and the average selling price for functional fabric remained at a low level. In 1Q 2011, market demand for high grade textile products recovered mainly due to the continuous improvement of world-wide economy post financial turmoil. Average selling price also increased due to the general increase in product grade. Higher grade products usually yield higher gross profit margin.

In addition, with increased production volume in 1Q 2011 compared to that of 1Q 2010, the allocation of fixed manufacturing overhead to each unit of production, such as depreciation, is reduced. This is another factor for the increase in gross profit margin.

fabric were high grade textile products. As the worldwide economy recovers, demand for higher grade textile products increase.

The increase in sales for functional fabric and normal fabric mainly came from increased demand from existing customers.

The manufacturing and sale of fabrics segment, representing about 99% of our business in terms of revenue contribution, comprised of manufacturing and sale of normal fabric, functional fabric and high grade umbrella fabric.

Sales volume for manufacturing and sale of fabrics increased consistently in each quarter of FY2010 and 1Q 2011, as follows:

<u>Sales volume (in million yard)</u>	<u>1Q 2010</u>	<u>2Q 2010</u>	<u>3Q 2010</u>	<u>4Q 2010</u>	<u>1Q 2011</u>
Manufacturing and sale of fabrics	<u>4.6</u>	<u>7.7</u>	<u>8.9</u>	<u>11.4</u>	<u>12.3</u>

Gross profit margin for manufacturing and sale of fabrics are as follows:

	<u>Gross profit margin</u>	
	<u>1Q 2011</u>	<u>1Q 2010</u>
Manufacturing and sale of fabrics	28.9%	11.2%

We do not disclose the respective gross profit margin of high grade umbrella fabric, functional fabric and normal fabric as requested in the query because of the following potential negative impacts to our business: i) it may induce more competitors to follow us to focus on high margin products and therefore lead to more competition to our product; ii) it may increase the pricing pressure both from our suppliers and customers in relation to our high margin products.

Query 3

We note on Page 8 that “production capacity increased and production efficiency and product quality improved, directly contributing to the increase in gross profit margin”.

Please explain how the increase in capacity increased gross profit margin. Please provide details of the capacity utilization of the Company’s capacity in 1Q2011 Vs 1Q2010. To also provide details of the cost of capital expenditure, if any, and how this had impacted the Company’s production capacity and depreciation.

Company’s response to Query 3

Our production line is used to produce different products. During the switch of production from one product to another one, production line takes time to cool down, change machines setting as well as production materials and then warm up again. With increased production capacity, we have more flexibility on production scheduling among different products and therefore the number of product switching on production line could be minimized. This directly drives up production efficiency.

With increased production volume, the allocation of fixed manufacturing overhead to each unit of production, such as depreciation, is reduced.

As disclosed on Page 51 of our FY2010 Annual Report and previous announcement, we invested RMB 13.5 million in plant and machinery during the second to the third quarter of the year 2010.

	<u>1Q 2011</u>	<u>1Q 2010</u>
Production capacity (in million yard)	14.5	9.7
Utilization rate	88.3%	49.0%
Depreciation charge (RMB'000)	4,956	4,833

By Order of the Board

Tsoi Kin Chit
Executive Chairman
13 May 2011