

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.

<u>1Q 2011</u> <u>1Q 2010</u>

Percentage of sales

44.3% 52.8%

The decrease in percentage of sales of functional fabric was mainly due to the significant increase in sales of high grade umbrella fabric in 1Q 2011. Sales volume of functional fabric increased by more than 1.2 times from 1.8 million yard in 1Q 2010 to 4.0 million yard in 1Q 2011. Please refer to the table in answer to guery 2 for more information.

Query 2

The Company disclosed on Page 8 that "Sales" increased also due to an increase in sales volume by 1.7 times.

Please disclose the reasons behind the significant surge in sales volume by 1.7 times from 4.8 million yards in 1Q2010 to 12.3 million yards in 1Q2011. To also disclose why there is a sudden surge in:-

- (i) High grade umbrella fabric;
- (ii) Functional fabric; and
- (iii) Normal fabric.

For each of the above, to disclose their respective gross profit margins and whether this increase in demand is due to new customers or existing customers and elaborate on the reasons for this increase in demand from them, including the number of existing and new customers in these sectors in 1Q2011 Vs 1Q2010.

Company's response to Query 2

		Sales	volume	1Q 2011				
		('million yard)		New	customer	Existing customer		
		1Q 2011	1Q 2010	No. of customer	Contribution on product's revenue	No. of customer	Contribution on product's revenue	
High grade umbrella fabric	note a	6.0	1.5	10	12%	32	88%	
Functional fabric	note b	4.0	1.8	2	3%	49	97%	
Normal fabric	note b	2.3	1.3	8	7%	70	93%	
Total		12.3	4.6	20	7%	151	93%	

note a) The increase in sales volume of high grade umbrella fabric was due to our marketing and product development efforts on this product range since the second half of the year 2009. At 1Q 2010 we were still under initial marketing and product development stage for this product.

The increase in sales for high grade umbrella fabric came from both increased demand from existing customers and new customers.

note b) The increase in sales volume of functional fabric and normal fabric were due to the general recovery of textile market as a result of continuous improvement of world-wide economy post financial turmoil. Target markets for both our functional fabric and normal

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:

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

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

Gross profit margin 1Q 2011 1Q 2010

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