

# SINO TECHFIBRE LIMITED

(Incorporated in Bermuda)  
(Company Registration Number: 38530)

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Response to SGX queries on announcement of financial results for the financial statements and dividend announcement for the 9 months ended 30 September 2009

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The Board of directors of the Company (together with its subsidiaries, “the Group”) wishes to announce its response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in connection with the announcement made by the Company on 6 November 2009, with regard to the Financial Statements and Dividend Announcement for the 9 months ended 30 September 2009.

Query 1)

Kindly provide the breakdown of general and administrative expenses for 9 months ended 30 September 2008 and 2009 and comparing the items in this expenses and setting out the reasons for the increase in every individual items.

Response to query

<u>General and administrative expenses</u>	9M2009	9M2008	Variance	
	RMB'000	RMB'000	+ / (-)	Note
Salaries	4,349	1,547	2,802	1
Welfare expenses	2,643	1,954	689	2
Contribution to defined contribution plans	2,633	2,146	487	3
Depreciation	10,326	1,028	9,298	4
Research & development expenses	117,302	–	117,302	5
Allowance for inventory obsolescence	9,644	–	9,644	6
Realised exchange gain	(519)	(12,169)	11,650	7
Travelling expense	7,005	4,419	2,586	8
Entertainment expense	8,644	6,004	2,640	8
Other taxes	6,416	2,405	4,011	9
Others	7,131	6,289	842	10
	<b>175,574</b>	<b>13,623</b>	<b>161,951</b>	

## Note

- 1) Salaries increased due to research department staff salaries were reallocated to general and administrative expenses in 9M2009.
- 2) Due to the increase in number of staff in 9M2009 as compared to 9M2008, staff welfare expenses increased.
- 3) There was an increase in the number of staff and minimal base wage for social contribution (社保缴费基数) in 9M2009 as compared to 9M2008, as a result, the contribution to defined contribution plans increased.
- 4) Increase in depreciation in 9M2009 was mainly due to the depreciation arising from the usage of the new PMP line for research and development purposes during the period under review.
- 5) Research and development expenses increased due to more research projects carried out in 9M2009. Raw materials used in producing new PU products, new Microfibre

products and new PMP patterns amounted to approximately RMB30.9 million, RMB27.4 million and RMB12.9 million. The research expenses for protective armour relate to a project initiated by the Armed Forces. We have taken up the project as we see it as an opportunity to work with them to develop the protective armour. According to the agreements, the research periods last from April 2009 to May 2011. The total consideration was approximately RMB58.8 million. As of 30 September 2009, we have paid approximately RMB46.0 million.

- 6) Allowance for inventory obsolescence increased in 9M2009 as a result of the assessment of net realizable value performed by management.
- 7) Higher exchange gain in 9M2008 was mainly due to translation gain arising from fluctuations of the RMB against HKD.
- 8) Entertainment and travelling expenses increased in 9M2009 as managerial staff of the company increased their efforts to maintain relationships with our customers as well as securing new customers.
- 9) Other taxes include business tax, urban real estate tax and land use tax. The Group's PRC subsidiary, Shandong Xinlong, acquired additional land use rights in June 2008, resulting in an increase in land use tax for 9M2009 as compared to 9M2008. Shandong Xinlong also leased out its property, plant and equipment to another PRC subsidiary, Yantai Golden Sun, since August 2008, thus business tax on the rental of these assets is incurred for the entire period of 9M2009 as compared to 1 month in 9M2008.
- 10) Increase in others mainly represents increase in amortisation of land use rights and trademarks, professional fees and stamp duties in 9M2009 compared with 9M2008.

The above expenses are recurring expenses except for the allowance for inventory obsolescence. We expect there would be no significant allowances for inventory obsolescence to be provided with better cost controls and inventory management. We also expect that research and development expenses amount to be incurred in 2010 will not be as significant as 2009.

On behalf of the board of directors

Li Wenheng  
Chief Executive Officer

Date: 16 November 2009