

ASIA FASHION HOLDINGS LIMITED
(Company Registration No. 41195)
(Incorporated in Bermuda)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 1 March 2015 on the Unaudited Full Year Financial Statement and Dividend Announcement for the Year Ended 31 December 2014 (“**Q4 2014**”). Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the Results Announcement. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 18 March 2015 (“**SGX Query**”) as follows:

SGX Query 1

(a) We note on page 4 that ‘Trade receivables’ has increased by 95.6% from RMB67.637 million in FY2013 to RMB132.275 million in FY2014. Please provide breakdown and quantify and explain the material items contributing to the increase.

(b) We note on page 17 the ageing analysis of trade receivables for New Materials Business. For the amount of RMB54.399 million that was more than 120 days, please provide the following information:-

- (i) To explain why this amount not paid yet
- (ii) To explain whether there are any issues with customers
- (iii) To disclose how long this amount has been outstanding

Company’s Response to SGX Query 1(a)

As explained in Note 8(b) on page 17 of the Results Announcement, the ‘Trade receivables’ of RMB132.3 million in FY2014 arose solely from the sales from our New Materials Business.

This is in contrast to the trade receivables of RMB67.637 million recorded in FY2013, which arose solely from the sales from the Fabric Business. The material items contributing to the increase include the sales from the New Materials Business, which was only acquired in 2014.

In comparison to the trade receivables amounting to RMB140.1 million disclosed in our Q32014 result announcement dated 12 November 2014, there was a decrease of RMB7.8 million or 5.56%.

Company's Response to SGX Query 1(b)

With reference to the Results Announcement for Q4 2014, further details of the aging analysis are as follows:

	<i>RMB'000</i>
Less than 60 days	62,646
61 days to 120 days	19,951
121 days to 365 days	40,961
More than 365 days	13,438
	<hr/>
	136,996
Provision for doubtful debts	(4,721)
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	<u>132,275</u>

As our subsidiary, Xuzhou Zhongwei New Co., Ltd is still expanding actively and is currently working on establishing a strong clientele, it is flexible with its repayment terms with its active customers despite credit terms set for all active customers which had been contractually agreed upon.

In respect of debts for "more than 365 days" above, RMB7.5 million and RMB2.6 million were due from two of our customers, Foshan Zhonglan Commercial Co., Ltd and Xuzhou Huahai Steel Structure Engineering Co., Ltd, respectively and the remaining balances had been fully provided for as doubtful debts. The debts owed by Foshan Zhonglan and Xuzhou Huahai was outstanding for more than a year due to agreements with these two customers because these customers were experiencing tight cash flows. There was no dispute with these two customers and Foshan Zhonglan Commercial Co., Ltd had repaid approximately RMB9 million in 2014.

The Group will continue to monitor these receivables closely and appropriate action will be taken, if necessary.

SGX Query 2

We note on page 4 that 'Prepayments and other receivables' has increased by 5,902.7% from RMB3.71 million in FY2013 to RMB222.701 million in FY2014. We also note on page 17 the breakdown of prepayment and other receivables as follows (i) 'Advances paid': RMB80.066 million; (ii) 'Deposit paid': RMB680,00; and (iii) 'Other receivables': RMB141.955 million. Please provide the following information:-

- (a) To provide breakdown and aging of 'Advances paid' and 'Other receivables'
- (b) To elaborate on the nature of these 'Other receivables'

Company's Response to SGX Query 2(a)

The detailed breakdown of "Advances paid" for our New Materials Business are as follows:

	<i>RMB'000</i>
Advances paid for:	
Raw materials	51,329
Machineries and maintenance	27,034
Utilities	1,461
Others	242
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	<u>80,066</u>

Company's Response to SGX Query 2(b)

The detailed breakdown of "Other receivables" of our New Materials Business are as follows:

	<i>RMB'000</i>
Advances paid for machineries	48,180
Loans to business associates (Note 1)	71,719
Advances to management staff (Note 2)	9,709
Receivables in respect of divestment (Note 3)	10,100
Others	2,247
	<hr/> <u>141,955</u>

Note 1: These amounts were interest-free loans to business associates and are expected to be repaid in 2015.

Note 2: These amounts were advances made to management staff primarily for operational purposes.

Note 3: This amount relates to the receivable from the divestment of Guangzhou Zhongsen to third parties, prior to the acquisition by the Company.

SGX Query 3

We note on page 4 that 'Other payables and accruals' has increased by 579.8% from RMB25.629 million in FY2013 to RMB174.22 million in FY2014. We also note on page 19 the breakdown of other payables and accruals as follows (i) 'Deposits paid': RMB15.836 million; (b) 'Accrued expenses': RMB55.519 million; and (iii) 'Other payables': RMB102.864 million. Please provide the following information:-

(a) To provide breakdown by types of 'Other payables' and explained what is the nature of the transaction that resulted in this.

Company's Response to SGX Query 3(a)

The detailed breakdown of "Other payables" of our New Materials Business are as follows:

	<i>RMB'000</i>
Due to ex-shareholder of Xuzhou Zhongwei New Board Co., Ltd	100,000
Others	2,864
	<hr/> <u>102,864</u>

The amount due to ex-shareholder of Xuzhou Zhongwei New Board Co., Ltd was an existing debt which became payable by the Group when China Construction Material (Hong Kong) Limited acquired Zhongwei New Board Co., Ltd through the acquisition of, *inter alia*, Zhongchuang (Xuzhou) Construction Co., Ltd in 27 June 2013.

SGX Query 4

We note on page 4 that there is a 'Non-equity linked bonds' of RMB50.835 in FY2014. Please provide details of this 'Non-equity linked bonds'.

Company's Response to SGX Query 4

As announced by the Company on 9 June 2014, the Company had on 9 June 2014 entered into a bond subscription agreement ("**Bond Subscription Agreement**") with Li YuHuan (the "**Subscriber**") for the issuance of seven (7) per cent. unsecured non-equity-linked bonds with an aggregate principal amount of S\$10,000,000.00 (the "**Bonds**") and in the denomination of S\$200,000.00. The Subscriber had on 9 June 2014 subscribed for Bonds at the aggregate subscription price of S\$10,000,000.00 in accordance with the terms of the Bond Subscription Agreement.

SGX Query 5

We note on page 5 that Bonds payable by the Group comprise of (1) issuance of RMB180 million, 10% unsecured SME tradable bonds by subsidiary, Xuzhou Zhongwei New Board Co., Ltd (formerly known as Xuzhou Zhongsen New Board Co., Ltd), quoted on Shanghai Stock Exchange due on 28 March 2016 and (2) a 7% unsecured bond of RMB51 million provided by Li Yaxin, an independent third party PRC investor. Please provide the following information:-

(a) Issuance of RMB180 million, 10% unsecured SME tradable bonds due 28 March 2016

(i) To provide details of this bond including the nature of this bond, the quotation, how the Company intends to fund the repayment and any material information relating to this bond

(b) 7% unsecured bond of RMB51 million

(i) To provide details of this bond including the nature of this bond, maturity date, how the Company intends to fund the repayment, details of the investor and reasons for the investor's loan to the Company and any material information relating to this bond.

Company's Response to SGX Query 5(a)

Our subsidiary, Xuzhou Zhongwei New Board Co., Ltd (formerly known as Xuzhou Zhongsen New Board Co., Ltd) ("**Zhongwei**"), prior to the acquisition by the Company, had on 28 March 2013 successfully issued a private SME Bond ("**SME Bond**") listed on Shanghai Stock Exchange. The SME Bond bears an interest at 10% per annum, and was arranged by Huarong Securities Co., Ltd and guaranteed by Sino-Capital Guaranty Trust ("**SCGT**"). The SME Bond is repayable in full on 28 March 2016.

The Company intends to fund the repayment of the SME Bond due on 28 March 2016 through internal generated cash arising from the operations of the Group.

On 1 April 2014, 21st Century Business Herald reported that Zhongwei had defaulted on its first interest payment on the SME Bond (Code: 13 中森债), which was due on 28 March 2014¹. The reason for the occurrence of default was due mainly to non-payment by SCGT. In this regard, Zhongwei had provided advanced interest payment to SCGT, but SCGT did not pay the bondholders the stipulated interest on the due date. Subsequently, Zhongwei had, on May 2014², paid up all interest due to bondholders, using its internal generated cash. Zhongwei has also committed to fulfil the interest payments when this is due and payable.

This default event had occurred prior to the acquisition of Zhongwei by the Company.

¹ <http://jigou.21cbh.com/2014/4-1/zOMDA0OTZfMTEsNjgzOA.html>

² <http://bond.hexun.com/2014-05-28/165189044.html>

Company's Response to SGX Query 5(b)

The RMB51 million indebtedness was incurred by Rich Circles Enterprise Limited ("**Rich Circles**"), a subsidiary of the Company, pursuant to the drawdown of RMB51 million on 18 June 2014 pursuant to a loan letter dated 18 June 2014 and entered into between Rich Circles Enterprise Limited as borrower and Li Yaxin as lender.

The loan has an interest rate of 7% per annum. The loan and the interest chargeable thereon is repayable on 19 June 2016. The loan was provided by Li Yaxin, the joint venture partner of the Company in respect of the identification of potential business and development opportunities in China, in connection with the acquisition of China Construction Material (Hong Kong) Limited ("**CCMH**") by Rich Circles, as announced by the Company on 18 June 2014, 25 June 2014, 27 June 2014 and 3 July 2014.

As announced by the Company on 25 June 2014, Ms. Li Yaxin is 45 years old and is a citizen of the People's Republic of China. She graduated with a Bachelors' degree in International Trading from Jilin University in 1992. She is currently and has been the founder and Managing Director of Jilin Jinyan Investment Management Limit from 2005, and currently manages a portfolio of assets worth more than RMB 1 billion. From 1997 to 2005, she worked as a President Assistant at her family business, ChangChun Jinlai Pharmaceutical Limited, where she provided support to the president and assisted in the management of the business operations of the group. From 1992 to 1997, she was a Business Manager at Jilin Province Import & Export Company.

The Company intends to fund the repayment of this loan through internal generated cash arising from the operations of the Group.

SGX Query 6

We refer to paragraph 9 of the Results Announcement. Please comment on whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its previous quarterly results announcement and if there is a variance, to explain why.

Company's Response to SGX Query 6

The Company has made the following disclosure in paragraph 10 of the 4Q FY2014 results announcement:

"Acquisition of the CCMH Group

The Company had on 18 June 2014 through its 49% owned associated company Rich Circles Enterprise Limited, completed the acquisition of 100% of the issued and paid up share capital of CCMH. As announced by the Company on 7 August 2014, the Company had on 6 August 2014 appointed Neo Chee Beng and Yuan Limin to the Board of CCMH and its 100% owned operating unit Xuzhou Zhongsen, and has the majority control of the Board of both CCMH and Xuzhou Zhongsen. The appointments has enabled the Company to have greater control over the operations of the newly acquired business. The financial performance of this newly acquired New Materials Business, had contributed significantly to the Group's improved financial performance in Q3 2014.

We are cautiously optimistic that this new business will continue to contribute positively to the financial position of the Company and its subsidiaries.

Proposed Disposal

Pursuant to the shareholders' circular dated 9 January 2015 in relation to the sale and purchase agreement dated 19 September 2014 entered into between the Company, the Purchaser and Lin Daoqin in relation to the disposal of 100% of the share capital of Qianfeng International Limited by the Company to Chengde Industrial Co., Limited (the "Purchaser") (the "Proposed Disposal") for an aggregate consideration of S\$2.4 million. The Proposed Disposal was approved by the shareholders of the Company on 2 February 2015, with effect from 3 February 2015.

QIL is an investment holding company, and the legal and beneficial owner of 100% of the registered capital of each of Fujian Qianfeng, a company incorporated on 7 December 2001 under the laws of the PRC, and Fujian Jiamei, a company incorporated on 29 April 2004 under the laws of the PRC. Fujian Qianfeng, operates the business of manufacture and sale of synthetic knitted fabrics, and Fujian Jiamei operates the business of manufacture of synthetic knitted fabrics.

With the disposal of the existing Fabric Business, the Company will concentrate and continue operating with the New Materials Business of the RC Group acquired in June 2014.

The Company will continue to undertake a strategic review to examine the options regarding the restructuring of its business."

The Company did not make a prospect and forecast statement in the above disclosure and had merely stated the facts/events that had been duly announced in the SGXnet.

By Order of the Board

Neo Chee Beng
Executive Chairman
24 March 2015