

CIRCULAR DATED 10 MAY 2017

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of Asia Fashion Holdings Limited (the “**Company**”) held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular with the Notice of Special General Meeting and the attached proxy form to the purchaser or transferee as arrangements will be made by CDP for a separate Circular with the Notice of Special General Meeting and the attached proxy form to be sent to the purchaser or transferee. If you have sold or transferred all your Shares (as defined herein) represented by physical share certificate(s), you should forward this Circular with the Notice of Special General Meeting and the attached proxy form immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (“**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Circular. Approval in-principle granted by the SGX-ST for the listing of and quotation for the Conversion Shares (as defined herein) and the Placement Shares (as defined herein) on the Main Board of the SGX-ST is not to be taken as an indication of the merits of any of the Proposed CB Issuance (as defined herein), the Proposed Share Placement (as defined herein), the Conversion Shares, the Placement Shares, the Company and/or its subsidiaries.



ASIA FASHION HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number: 41195)

CIRCULAR TO SHAREHOLDERS

in relation to:

- (A) PROPOSED ISSUANCE OF 7.0% UNSECURED CONVERTIBLE BONDS OF AN AGGREGATE PRINCIPAL AMOUNT OF S\$2,100,000; AND**
- (B) PROPOSED PLACEMENT OF 35,000,000 NEW ORDINARY SHARES IN THE SHARE CAPITAL OF THE COMPANY**

IMPORTANT DATES AND TIMES

Last date and time for lodgement of proxy forms	:	24 May 2017 at 10.30 am
Date and time of Special General Meeting	:	26 May 2017 at 10.30 am
Place of Special General Meeting	:	Amara Singapore 165 Tanjong Pagar Road Singapore 088539

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DEFINITIONS

In this Circular, the following definitions apply throughout unless the context otherwise requires or otherwise stated:

“2012 to 3Q2014 Financial Statements”	:	The unaudited financial statements of Xuzhou Zhongsen for FY2013 and the first three quarters of FY2014
“2Q2017”	:	The financial quarter of the Company ended 31 December 2016
“AE Subsidiaries”	:	Asia Entertainment Limited and Asia Entertainment HK
“Alternus”	:	Alternus Capital Holdings Limited
“Alternus Conversion Shares”	:	The conversion shares which may be issued pursuant to the conversion of the Alternus Convertible Bonds
“Alternus Convertible Bonds”	:	The outstanding convertible bonds issued to Alternus pursuant to the convertible bond agreement entered into between the Company and Alternus dated 5 March 2015 and as supplemented by the supplemental agreement dated 16 March 2015 and the agreement between the Company and Alternus on 27 February 2017
“Asia Entertainment HK”	:	Asia Entertainment (Hong Kong) Limited
“associates”	:	Has the meaning ascribed to it under the Listing Manual
“Baota”	:	Beijing Baota Petrochemical Company Limited
“Bermuda Companies Act”	:	The Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time
“Board”	:	The board of Directors of the Company for the time being
“Boxing Championship”	:	The FFG X AEG E-1 K.O. World Championship
“Business Day”	:	A day (excluding Saturdays, Sundays and gazette public holidays) on which commercial banks are open for business in Singapore
“Bye-laws”	:	The bye-laws of the Company as amended, supplemented or modified from time to time
“CCMHK”	:	China Construction Material (Hong Kong) Limited
“CDP”	:	The Central Depository (Pte) Limited
“Circular”	:	This circular to Shareholders dated 10 May 2017
“Company”	:	Asia Fashion Holdings Limited
“Companies Act” or “Act”	:	The Companies Act, Chapter 50 of Singapore, as amended, modified or supplemented from time to time
“Conversion Price”	:	S\$0.35 for each ordinary share
“Conversion Shares”	:	The new ordinary shares in the capital of the Company to be issued upon conversion of the Convertible Bonds

“Convertible Bond Agreement”	:	The convertible bond agreement entered into between the Company and Mr. Dai Ji Zhou on 25 November 2016
“Convertible Bonds”	:	The convertible bonds of an aggregate value of S\$2,100,000 to be subscribed by Mr. Dai Ji Zhou pursuant to the Convertible Bond Agreement
“Depositor Proxy Form”	:	The depositor proxy form in respect of the SGM
“Directors”	:	The directors of the Company as at the Latest Practicable Date
“EPS”	:	Earnings per Share
“G Music”	:	G Music (HK) Limited
“Group”	:	The Company and its subsidiaries
“Han Energy”	:	Han Energy Co., Ltd
“HKEx”	:	The Stock Exchange of Hong Kong Limited
“HLB Report”	:	The report of HLB Atrede LLP on the effectiveness of the internal controls systems of the Company and its subsidiaries
“Issuance Completion Date”	:	The date of the completion of the Proposed CB Issuance
“Latest Practicable Date”	:	The latest practicable date prior to the printing of this Circular, being 2 May 2017
“Listing Manual”	:	The listing manual of the SGX-ST as amended, modified or supplemented from time to time
“Management”	:	The management of the Company
“Mandatory VWAP Price”	:	The volume weighted average price for trades done on the shares of the Company on the SGX-ST of S\$0.55 per Share
“market day”	:	A day on which the SGX-ST is open for trading in securities
“Materials Business”	:	The business of designing, manufacturing and sales of new materials business products such as: (i) magnesium multifunctional boards, which are fundamental boards that can be used as ceiling panels, wall panels, insulation board, fireproof board, and waterproof board, and can either be directly sold to customers or further processed for building and decorative purposes; (ii) floor and grainy boards, which are produced by further processing of the magnesium multifunctional board and are processed to shield the board against wear, scratch, and stain, and can be used as decorative panels for, <i>inter alia</i> , home, hotels, and office flooring; (iii) decorative boards, which are produced from magnesium multifunctional boards by coating the surfaces with aluminium or magnesium compounds, and can be widely used to create cabinets and other kinds of interior and exterior decorations; and (iv) aluminium products, which are produced with transfer printing technology, allowing the final product to look like natural materials such as marble and granite, and can be either sold as finished goods or used with magnesium multifunctional board to produce decorative boards

“Maturity Date”	: The date that is three (3) years from the date of the issue of the Convertible Bonds
“Memorandum”	: The memorandum of association of the Company as altered or amended from time to time
“Notice of SGM”	: The notice of the SGM dated 10 May 2017 as set out on pages 51 to 53 of this Circular
“NTA”	: Net tangible assets
“Placees”	: Means Hu Zhen, Li Zheng, Ng Wah Pang and Dai Ju Yun
“Placement Agreements”	: The placement agreements entered into between the Company and each of the Placees on 7 December 2016
“Placement and Disposal Circular”	: The Company’s Placement and Disposal Circular dated 9 January 2015 in relation to the proposed placement of 100,000,000 new ordinary shares to Feng Jia Cheng, Wang Hui, Cai Yi and Guo Wei Qi and the proposed disposal of Qianfeng International Limited
“Placement Shares”	: Up to 35,000,000 new ordinary shares to be allotted and issued by the Company pursuant to the Proposed Share Placement
“Previous Key Subsidiaries”	: Fujian Jiamei Textile Company Limited. and Fujian Qianfeng Textile Technology Co. Ltd.
“Prime 10% Coupon Bond”	: The 2-year HK\$10 million non-equity bond issued to Prime Pacific Investments Limited by the Company on 4 March 2015 and which bears a simple interest rate of 10% per annum from the issue date up to and including the date of redemption of the bond
“PwC”	: PricewaterhouseCoopers LLP
“Qianfeng Claims”	: The claims received by Fujian Qianfeng Textile Technology Co. Ltd. amounting to RMB 517 million from Fuzhou Fule Shoe Material Co., Ltd, Fuqing Zhongliangxingye Shoe Material Co., Ltd, Haining Hanchen Textile Co., Ltd, Dongguan Jiarui Shoe Material Co., Ltd, Dongguan Jingfeng Fiber Technology Co., Ltd, Putian Xianglong Shoes and Clothes Co., Ltd, Jinjiang Xuri Textile Co., Ltd and Dongguan Yuanzhan Textile Co., Ltd for delivered products that allegedly failed to meet customers’ specified requirements
“Redemption Conversion Period”	: The period of fifteen (15) days after the date of receipt of the Company’s Redemption Notice.
“Redemption Notice”	: A written notice served from the Company to the bondholder (at any time within the period commencing the seventh (7 th) month from the issue date up until the Maturity Date) to redeem all (and not some only) of the Convertible Bonds then outstanding at 103% of the principal amount, together with all accrued and unpaid interest that was scheduled to be paid on (but excluding) the redemption date.
“Register of Members”	: The register of members of the Company
“Rich Circles”	: Rich Circles Enterprise Limited

“Rich Circles Group”	: The group comprising Rich Circles and its subsidiaries
“Securities Account”	: A securities account maintained by a Depositor with CDP but does not include a securities sub-account maintained with a Depository Agent
“SFA”	: The Securities and Futures Act, Chapter 289 of Singapore, as amended, modified or supplemented from time to time
“SFC”	: The Securities and Futures Commission of Hong Kong
“SGM”	: The special general meeting of the Company, notice of which is set out on pages 51 to 53 of this Circular
“SGX-ST”	: Singapore Exchange Securities Trading Limited
“Shanghai Daiyoulong”	: 上海戴优垄新材料有限公司
“Share” or “Shares”	: Ordinary shares in the capital of the Company
“Share Consolidation Exercise”	: A share consolidation exercise of the Company
“Shareholder Proxy Form”	: The shareholder proxy form in respect of the SGM
“Shareholders”	: Registered holders of Shares in the Register of Members except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares and where the context admits, mean Depositors whose Securities Accounts are credited with such Shares
“SME Bondholders”	: Means the bondholders in respect of the RMB 180 million SME Bonds
“SME Bonds”	: Means the RMB 180 million bonds issued by Xuzhou Zhongwei on 28 March 2013 and listed on Shanghai Stock Exchange, which bear an interest rate of 10% per annum, and were arranged by Huarong Securities Co., Ltd. and guaranteed by Sino-Capital Guaranty Trust
“Stock Exchange Business Day”	: A day (other than a Saturday or Sunday) on which SGX-ST is open for securities trading
“substantial shareholder”	: A person who has: <ul style="list-style-type: none"> (a) an interest or interests in one or more voting Shares (excluding treasury shares) in the Company; and (b) the total votes attached to that share, or those Shares, is not less than 5% of the total votes attached to all the voting shares (excluding treasury shares) in the Company
“Undertakings and Confirmations”	: The undertakings and confirmations given by the Company to SGX-ST on 25 April 2017, as set out under Section 1.4.1(c) of the Circular
“Xuzhou Zhongchuang”	: Zhongchuang (Xuzhou) Construction Material Co., Ltd.
“Xuzhou Zhongsen”	: Xuzhou Zhongsen Tonghao New Board Co., Ltd (currently known as Xuzhou Zhongwei New Board Co., Ltd)

“Xuzhou Zhongwei”	:	Xuzhou Zhongwei New Board Co., Ltd (formerly known as Xuzhou Zhongsen Tonghao New Board Co., Ltd)
“W-inds HK Concert”	:	The 15th Anniversary Live Tour “Forever Memories” concert of W-inds in Hong Kong

Currencies and units

“RMB” and “RMB cents”	:	Chinese Yuan Renminbi and cents respectively, representing the lawful currency of the People’s Republic of China
“S\$”, “SGD” or “\$” and “cents”	:	Singapore dollar and cents respectively, representing the lawful currency of the Republic of Singapore
“US\$”	:	United States Dollar, representing the lawful currency of the United States of America
“%” or “per cent”	:	Per centum or percentage

The terms **“Depositor”**, **“Depository Agent”** and **“Depository Register”** shall have the same meanings ascribed to them respectively in Section 81SF of the SFA.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall, where applicable, include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any term defined under the Act, the Bermuda Companies Act, or the Listing Manual or the SFA or any statutory modification thereof and used in this Circular shall, where applicable, have the same meaning assigned to it under the Act, the Bermuda Companies Act, or the Listing Manual or the SFA or any statutory modification thereof, as the case may be, unless otherwise provided herein.

Any discrepancies in the tables included in this Circular between the listed amounts and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables in this Circular may not be an arithmetic aggregation of the figures that precede them.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

Exchange Rates

For the purpose of illustration only and unless otherwise stated, based on the exchange rates as at the Latest Practicable Date:

- (a) The exchange rate between S\$ and RMB is S\$1.00 to RMB 4.85. This exchange rate should not be construed as a representation that the RMB amounts could have been, or could be, converted into Singapore dollars at the rate stated, or at all, and vice versa.
- (b) The exchange rate between US\$ and S\$ is US\$1.00 to S\$1.37. This exchange rate should not be construed as a representation that the US\$ amounts could have been, or could be, converted into Singapore dollars at the rate stated, or at all, and vice versa.
- (c) The exchange rate between US\$ and RMB is US\$1.00 to RMB 6.65. This exchange rate should not be construed as a representation that the RMB amounts could have been, or could be, converted into US\$ at the rate stated, or at all, and vice versa.

LETTER TO SHAREHOLDERS

ASIA FASHION HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number: 41195)

Board of Directors:

Mr. Zhang Wei	(Non-Executive Chairman and Non-Executive Director)
Mr. Chong Tin Yam, Alex	(Chief Executive Officer and Executive Director)
Mr. Mak Tin Sang	(Chief Financial Officer and Executive Director)
Mr. Zhu Zhi Hong	(Executive Director)
Mr. Kwok Wei Woon	(Independent Director)
Mr. Lee Ka Shao	(Independent Director)

Registered Office:

Canon's Court,
22 Victoria Street,
Hamilton HM 12,
Bermuda

10 May 2017

To: The Shareholders of Asia Fashion Holdings Limited

Dear Sir/Madam

- (A) **PROPOSED ISSUANCE OF 7.0% UNSECURED CONVERTIBLE BONDS OF AN AGGREGATE PRINCIPAL AMOUNT OF S\$2,100,000 (THE "PROPOSED CB ISSUANCE"); AND**
- (B) **PROPOSED PLACEMENT OF 35,000,000 NEW ORDINARY SHARES IN THE SHARE CAPITAL OF THE COMPANY (THE "PROPOSED SHARE PLACEMENT")**
-

1. INTRODUCTION

1.1 Purpose of Circular

- 1.1.1 The Directors of the Company have proposed to convene an SGM to be held on 26 May 2017 to seek the approval of the Shareholders for the following proposals:

- (a) The Proposed CB Issuance; and
- (b) The Proposed Share Placement.

- 1.1.2 The purpose of this Circular is to provide Shareholders with relevant information relating to the Proposed CB Issuance and the Proposed Share Placement, including the rationale and financial effects on the Company of both proposals, and to seek the Shareholders' approval for the ordinary resolutions to be tabled at the SGM on 26 May 2017 in connection with the Proposed CB Issuance and the Proposed Share Placement. The resolutions are set out in the Notice of SGM on pages 51 to 53 of this Circular.

1.2 The Proposed CB Issuance

- 1.2.1 On 25 November 2016, the Company announced, *inter alia*, that it had entered into the Convertible Bond Agreement with Mr. Dai Ji Zhou on 25 November 2016, whereby Mr. Dai Ji Zhou has agreed to subscribe for the Convertible Bonds of an aggregate value of S\$2,100,000. On 23 December 2016, the Company announced, *inter alia*, that each of Mr. Dai Ji Zhou and the Company had on 23 December 2016 agreed in writing to extend the long stop date of the Convertible Bond Agreement to 31 March 2017 or such other date as Mr. Dai Ji Zhou and the Company may mutually agree in writing. On 23 March 2017, the Company announced, *inter alia*, that each of Mr. Dai Ji Zhou and the Company had on 23 March 2017 agreed in writing to extend the long stop date of the Convertible Bond Agreement to 30 June 2017 or such other date as Mr. Dai Ji Zhou and the Company may mutually agree in writing. Further information on the Proposed CB Issuance is set out in Section 3.1 below.

1.3 The Proposed Share Placement

- 1.3.1 On 7 December 2016, the Company announced, *inter alia*, that it had on 7 December 2016 entered into the Placement Agreements with each of the Placees, whereby the Placees have agreed to subscribe for an aggregate number of 35,000,000 new ordinary shares in the capital of the Company (representing approximately 69.307% of the existing issued and paid-up share capital of the Company) in the manner set out in Section 3.2 below, for an aggregate of S\$3,850,000. As set out in Section 5.2.2 below, the net proceeds, after deducting estimated expenses pertaining to the Proposed Share Placement of S\$100,000, will be S\$3,750,000 and will be fully used for working capital purposes. On 23 December 2016, the Company announced, *inter alia*, that each of the Placees and the Company had on 23 December 2016 agreed in writing to extend the long stop date of the respective Placement Agreements to 31 March 2017 or such other date as the Placees and the Company may mutually agree in writing. On 23 March 2017, the Company announced, *inter alia*, that each of the Placees and the Company had on 23 March 2017 agreed in writing to extend the long stop date of the Convertible Bond Agreement to 30 June 2017 or such other date as the Placees and the Company may mutually agree in writing. Further information on the Proposed Share Placement is set out in Section 3.2 below.

1.4 Approvals and In-Principle Approvals

- 1.4.1 The Company has applied to the SGX-ST for the listing and quotation of the Conversion Shares and the Placement Shares on the SGX-ST. On 24 April 2017, the Company announced that it had on 24 April 2017 received the in-principle approval from the SGX-ST for the listing and quotation of up to 7,260,000 Conversion Shares and the Placement Shares on the Main Board of the SGX-ST subject to the following conditions:

- (a) Compliance with the SGX-ST's listing requirements;
- (b) Shareholders' approval for the Proposed CB Issuance and the Proposed Share Placement; and
- (c) Submission of the following Undertakings and Confirmations:
 - (i) A written confirmation from the Company that the terms of the Proposed CB Issuance comply with Listing Rule 829(1);
 - (ii) A written undertaking from the Company that it will comply with Listing Rule 704(30) and Listing Rule 1207(20) in relation to the use of the proceeds from the Proposed CB Issuance, conversion of the Convertible Bonds and the Proposed Share Placement and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the annual report;
 - (iii) A written undertaking from the Company that it will comply with Listing Rule 803;
 - (iv) A written undertaking from the Company that it will comply with Listing Rule 831;
 - (v) A written undertaking from the Company that it will not place the Convertible Bonds to persons prohibited under Listing Rule 812(1); and
 - (vi) A written undertaking from the Company to announce any adjustment made pursuant to Listing Rule 829(1).

- 1.4.2 The Company had on 25 April 2017 submitted the Undertakings and Confirmations to the SGX-ST.

- 1.4.3 Shareholders and potential investors should note that the SGX-ST's in-principle approval above is not to be taken as an indication of the merits of the Proposed CB Issuance and the Proposed Share Placement, the Company and/or its subsidiaries.

- 1.4.4 Shareholders and potential investors should also note that clearance of the draft Circular does not imply that the Companies Act and any amendments thereof, or any other statutory requirements, have been complied with. Shareholders should further note that the SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in the draft Circular.
- 1.4.5 Rule 805 of the Listing Manual requires the approval of shareholders in a special general meeting to be obtained by the issuer for the issue of shares or convertible securities or the grant of options carrying rights to subscribe for shares of the issuer, except where a general mandate for such issue has been approved by shareholders in general meeting pursuant to Rule 806 of the Listing Manual.
- 1.4.6 As the Company will not be relying on the general mandate of the Company for the Proposed CB Issuance and the Proposed Share Placement, it has convened this SGM to obtain its Shareholders' approval for the issuance of the Convertible Bonds and the issue and allotment of the Placement Shares.

2. DISCUSSION ON THE BUSINESSES OF THE COMPANY, DESCRIPTION OF PAST FINANCING AND THE NEED FOR FURTHER FINANCING

2.1 The Materials Business

Background

- 2.1.1 The Company's current business comprises the Materials Business of Xuzhou Zhongwei held through the Rich Circles Group. The Rich Circles Group comprises:
 - (a) Rich Circles, a company incorporated in the British Virgin Islands. The Company owns a 54.46% equity stake in Rich Circles and Ms. Li Yaxin owns the remaining 45.54% equity stake in Rich Circles. The principal business of Rich Circles is "Investment Holding".
 - (b) CCMHK, a company incorporated in Hong Kong and which is a wholly-owned subsidiary of Rich Circles. The principal business of CCMHK is "Investment Holding".
 - (c) Xuzhou Zhongchuang, a company incorporated in the People's Republic of China and which is a wholly-owned subsidiary of CCMHK. The principal business of Xuzhou Zhongchuang is "Investment Holding".
 - (d) Xuzhou Zhongwei, a company incorporated in the People's Republic of China and which is a wholly-owned subsidiary of Xuzhou Zhongchuang. The principal business of Xuzhou Zhongwei is the Materials Business which consists of the business of designing, manufacturing and sales of new materials business products such as: (i) magnesium multifunctional boards, which are fundamental boards that can be used as ceiling panels, wall panels, insulation board, fireproof board, and waterproof board, and can either be directly sold to customers or further processed for building and decorative purposes; (ii) floor and grainy boards, which are produced by further processing of the magnesium multifunctional board and are processed to shield the board against wear, scratch, and stain, and can be used as decorative panels for, *inter alia*, home, hotels, and office flooring; (iii) decorative boards, which are produced from magnesium multifunctional boards by coating the surfaces with aluminium or magnesium compounds, and can be widely used to create cabinets and other kinds of interior and exterior decorations; and (iv) aluminium products, which are produced with transfer printing technology, allowing the final product to look like natural materials such as marble and granite, and can be either sold as finished goods or used with magnesium multifunctional board to produce decorative boards.

2.1.2 The current directors of Rich Circles are Mr. Mak Tin Sang (representing the Company), Ms. Li Yaxin (representing herself as the second single largest shareholder of the Rich Circles Group) and Mr. Yuan Limin as an independent director. Mr. Yuan Limin is a former non-executive chairman of the Company who had resigned on 27 October 2015, and who holds an indirect controlling interest in the Company through Yong Tai Investment Company Limited. The Chief Operating Officer of the Company, Mr. Huo Weisheng, performs the following roles in Xuzhou Zhongwei:

- (a) As a representative of the Company's interests in Xuzhou Zhongwei;
- (b) As a legal representative of Xuzhou Zhongwei;
- (c) As a supervisor of key operating personnel of Xuzhou Zhongwei;
- (d) As a negotiator for Xuzhou Zhongwei and/or the Company with the SME Bondholders; and
- (e) As a manager who participates in the formulation of Xuzhou Zhongwei's business strategies.

Notwithstanding the control exercised by Mr. Huo Weisheng, the issues faced by the Company in relation to its control over the business of Xuzhou Zhongwei is as elaborated in further detail in Sections 2.1.14 to 2.1.18 below. Save for Mr. Mak Tin Sang, the directors of the Company have no relationship with the Rich Circles Group except through the Company's shareholding therein. Other than being nominee director of the Company in Rich Circles and CCMHK, Mr. Mak Tin Sang has no other relationship with Rich Circles and CCMHK.

2.1.3 The Company's investment in the Rich Circles Group is primarily through two shareholders' loans of an aggregate principal amount of RMB 61 million to Rich Circles which were provided as part of its investment in Xuzhou Zhongwei and its business. This loan was used to fund the operational costs of Xuzhou Zhongwei's business and is part of the Company's investment in Xuzhou Zhongwei. The background behind these loans is as follows:

- (a) In connection with the acquisition by Rich Circles of CCMHK in connection with the share purchase agreement dated 18 June 2014 and entered into with China Construction Material Holdings Limited (which was wholly owned by Mr. Huo Weisheng) as vendor for the consideration of RMB 100 million, each of the Company and Ms. Li Yaxin had granted Rich Circles a loan of RMB 49 million and RMB 51 million respectively on 18 June 2014. The interest of 7% per annum and the outstanding amount of the loan shall be repaid on such date falling 2 years from 18 June 2014, being the date of the loan agreements. The Company and/or Ms. Li Yaxin may (as the case may be), by giving 10 Business Days' notice in writing to Rich Circles, demand early repayment of the interest and the outstanding amount of the loan. Notwithstanding the foregoing, both the Company and Ms. Li Yaxin have agreed to waive the respective interest payments due to them in view of the financial situation of Rich Circles.
- (b) In connection with the subscription of 1,200 shares on 27 May 2015 for a consideration of US\$1,200 resulting in the Company's increase in shareholding in Rich Circles to 54.46%, pursuant to a fund-raising exercise by Rich Circles, the Company extended a new shareholders' loan of RMB 12 million to fund the operational costs of Xuzhou Zhongwei. Ms. Li Yaxin, who was the Company's joint venture partner, had declined Rich Circle's invitation to participate in this subscription. The additional funding was in connection with the Company's announcement on 23 March 2015 whereby the Company had announced that Xuzhou Zhongwei had on 20 March 2015 entered into a supply contract with Baota to supply construction materials for the building of Baota's two projects – the heavy aromatics and olefins utilization refinery and economical recycle supporting facilities in Kuitun located within the Dushanzi Economic and Technological Development Zone in Xinjiang, China, as well as Baota's chain of petrol kiosks in Northwest China, for an aggregate amount of approximately RMB 381 million. Rich Circles had thereafter undertaken the fund-raising exercise to raise funds for the anticipated operational costs.

- 2.1.4 Details of the Materials Business were disclosed in the Company's Placement and Disposal Circular. The 2012 to 3Q2014 Financial Statements of Xuzhou Zhongsen were annexed to the Placement and Disposal Circular.

Issuance of SME Bonds by Xuzhou Zhongwei Prior to its Acquisition by the Rich Circles Group and Subsequent Default by Xuzhou Zhongwei

- 2.1.5 Prior to the acquisition of Xuzhou Zhongwei by the Rich Circles Group in June 2014, Xuzhou Zhongwei had issued SME Bonds of up to RMB 180 million on 18 March 2013. The SME Bonds were reflected as "non current liabilities" in the 2012 to 3Q2014 Financial Statements of Xuzhou Zhongsen annexed to the Placement and Disposal Circular. The intended use of proceeds was to expand Xuzhou Zhongwei's production capacity and to purchase significant amounts of raw materials in anticipation of big repeat orders from Baota and Han Energy, who were the key customers of Xuzhou Zhongwei. Han Energy was a subsidiary of Hanergy Thin Film Power Group Limited, a company listed on the HKEx with a large market capitalisation at the date of execution of its supply contract with Xuzhou Zhongwei. Following the issuance of the SME Bonds, all of the proceeds received were thereafter utilised to expand the production capacity of Xuzhou Zhongwei and to purchase additional raw materials for production purposes.
- 2.1.6 In the initial period after the acquisition, Xuzhou Zhongwei recorded turnovers of RMB 134.3 million, RMB 311.7 million, RMB 176.9 million, RMB 71.1 million and RMB 35.2 million for the quarters ended 30 September 2014, 31 December 2014, 31 March 2015, 30 June 2015, and 30 September 2015 respectively.
- 2.1.7 However, following the expansion, the turnover of Xuzhou Zhongwei subsequently fell significantly as a result of discontinued orders from Baota and the abortion of expected orders from Han Energy starting from the quarter ended 31 December 2015. As disclosed by the Company previously in its results announcement for 4Q2015 made on 14 February 2016, Baota had communicated in late 2015 that it had encountered certain financial difficulties, resulting in the cancellation of its remaining orders.
- 2.1.8 On the other hand, expected significant orders from Han Energy which were up to a possible maximum amount of RMB 150 million for the second half-year of 2015 had unfortunately been aborted due to the sudden suspension of the shares of its holding company, Hanergy Thin Film Power Group Limited, on the HKEx on 15 July 2015. In relation to such suspension, the SFC had on 23 January 2017 issued an announcement that it had commenced legal proceedings in the Court of First Instance to seek disqualification orders against the former chairman, Mr. Li Hejun, and four current independent non-executive directors, Ms. Zhao Lan, Mr. Wang Tongbo, Mr. Xu Zheng and Mr. Wang Wenjing, of Hanergy Thin Film Power Group Limited. The SFC is also seeking a court order requiring Mr. Li Hejun to procure that Hanergy Thin Film Power Group Limited's parent company, Hanergy Holding Group Limited and/or its affiliates pay all outstanding receivables due to Hanergy Thin Film Power Group Limited under various sales contracts and execute a guarantee securing their payment. The SFC's action follows its investigation into various very substantial connected transactions between Hanergy and Hanergy Holding Group Limited since 2010. The SFC alleges that the five directors failed to question the viability of Hanergy Thin Film Power Group Limited's business model which relied on the sales of solar panel production systems to its connected parties, Hanergy Holding and its affiliates, as its main source of revenue; and failed to properly assess the financial positions of the connected parties and hence the recoverability of the receivables due from them as a result of these connected transactions. It was reported that they had also failed to take proper steps to recover these receivables by putting the interests of the connected parties before that of Hanergy Thin Film Power Group Limited.
- 2.1.9 As such, Xuzhou Zhongwei has encountered very significant setbacks in its turnover since the quarter ended 31 December 2015. For illustrative purposes, the reported turnover of Xuzhou Zhongwei was only RMB 6.4 million, RMB 5.2 million, RMB 3.2 million and RMB 4.8 million for the latest quarters ended 31 March 2016, 30 June 2016, 30 September 2016 and 31 December 2016 respectively.
- 2.1.10 Currently, there are no orders in the order books from both Han Energy and Baota and no amounts are currently owing to the Group by Han Energy and Baota.

- 2.1.11 Due to the cancellation and abortion of the significant orders from Baota and Han Energy respectively, which were due to circumstances beyond the reasonable control of the Company, Xuzhou Zhongwei was thereafter unable to generate sufficient revenue, net operating profit and cashflow to repay the RMB 180 million SME Bonds, together with their annual interest charge of RMB 18 million when these fell due on 28 March 2016. Xuzhou Zhongwei has sought to remedy the situation by using its best endeavours to sell its existing inventory and to implement cost control measures in respect of the high operational costs to ensure that it is able to continue as a going concern.
- 2.1.12 Following the default in respect of the repayment of the RMB 180 million SME Bonds to the SME Bondholders on 28 March 2016, the SME Bondholders have been in a position to take legal action(s) in Xuzhou, China against Xuzhou Zhongwei for the recovery of the sums owing to them. However, the SME Bondholders have not taken any legal action (save for a freezing order that was withdrawn in late August 2016) and have, since April 2016, entered into negotiations with the local management of Xuzhou Zhongwei and the major shareholder of the Rich Circles Group, Ms. Li Yaxin, in search of a mutually agreeable and acceptable solution. The negotiations have been ongoing to date and the parties have yet to reach a mutually-acceptable solution. The SME Bondholders have also not filed any legal action against Rich Circles as Rich Circles is neither a borrower under any financial facilities with the SME Bondholders nor a guarantor of the SME Bonds.
- 2.1.13 Following the default, the Company was also informed by the local management of Xuzhou Zhongwei that the daily operations of Xuzhou Zhongwei have been under observation from the date falling a couple of days after the default of the SME Bonds on 28 March 2016 by a major SME Bondholder (whose identity is not disclosed due to confidentiality terms under the SME Bonds) while in the negotiations, by the stationing of representatives on the premises of the factory of Xuzhou Zhongwei, until an ultimate solution or agreement has been reached by both Xuzhou Zhongwei and the SME Bondholders.

The Company's Decreased Control over the Rich Circles Group and the Adoption of the "Equity Accounting for Associated Company" Basis of Accounting

- 2.1.14 Ms. Li Yaxin had on 8 August 2014 granted an irrevocable Power of Attorney to Mr. Yuan Limin, authorizing Mr. Yuan Limin to represent her in all operational and control aspects of the Rich Circles Group for a period of 20 months. Such Power of Attorney expired on 8 April 2016 and extension or renewal had not been granted by Ms. Li Yaxin to Mr. Yuan Limin or other legal representative of the Company. As a result, the Company lost its control formerly exercised through Ms. Li Yaxin's shareholdings in the Rich Circles Group.
- 2.1.15 Subsequently, Ms. Li Yaxin had informed the Company that she had granted a new irrevocable Power of Attorney to her brother-in-law, a Mr. Wong Chon Chong, who is unrelated to but has a very strong and friendly business relationship with the SME Bondholders and who is working very closely with the SME Bondholders in the current ongoing negotiations to reach a solution or agreement with the SME Bondholders as direct representative of Ms. Li Yaxin. Mr. Wong Chon Chong is a citizen of the Macau Special Administrative Region who has been a full time private investor in the properties and stock market in China and selected overseas markets. The Company's previous effective control of 100% of the Rich Circles Group has therefore been weakened to 54.46% due to Ms. Li Yaxin's non-renewal/non-extension of the Power of Attorney previously granted to Mr. Yuan Limin.
- 2.1.16 As the current shareholders of the Rich Circles Group may not be able or willing to raise funds of RMB 180 million for injection into Xuzhou Zhongwei to enable Xuzhou Zhongwei to repay the SME Bonds in the near foreseeable future, the local management of Xuzhou Zhongwei has had to adjust various aspects of daily normal operations of Xuzhou Zhongwei in accordance with the wishes of the SME Bondholders to avoid the SME Bondholders taking legal action against them and in the interest of negotiating a mutually-acceptable resolution with the SME Bondholders. This has impacted the Company's influence in the operations of Xuzhou Zhongwei notwithstanding the Company's majority control in Xuzhou Zhongwei through its 54.46% shareholding in Rich Circles, as the Company has to co-operate with the requests of the SME Bondholders in respect

of major decisions concerning the sales and financial aspects of Xuzhou Zhongwei's operations. In addition, the Company also does not have substantive rights that provide the Company with the ability to exercise its right of control by way of its majority stake and to direct all relevant activities in Xuzhou Zhongwei.

2.1.17 In connection with the above, Management and auditors have reclassified the Rich Circles Group as an associated company instead of a subsidiary of the Company, for the 18-month period from 1 January 2015 to 30 June 2016 and thereafter, thereby adopting the "equity accounting for associated company" instead of "full consolidation for subsidiary company" basis of accounting for the financial performance of the Rich Circles Group. The Company's auditors have provided full disclosure of their audit findings on the SME Bonds, and the default in repayment thereof, in the Company's Annual Report 2016 (in pages 55 – 60). While the Rich Circles Group is exempt from audit under the Ordinance laws of Hong Kong, the Company's auditors have also performed all necessary audit reviews and tests on the books and accounts of Rich Circles and CCMHK for the financial period ended 30 June 2016.

2.1.18 As the abovementioned negotiations between Xuzhou Zhongwei and the SME Bondholders are ongoing, the details thereof are sensitive and not disclosable by the Company. Nonetheless, the Company will provide updates to shareholders on any material developments.

Xuzhou Zhongwei still maintains an active business in the sales of its inventory and is still a going concern

2.1.19 Notwithstanding the discontinuation and abortion of orders from Baota and Han Energy respectively, as well as the default of the RMB 180 million SME Bonds, Xuzhou Zhongwei still maintains an active business in the sales of its substantial amount of inventory. It continues to supply its products to its customers and continues to record revenue of several million RMB per quarter.

2.1.20 Despite the fact that Xuzhou Zhongwei's production operation has slowed down significantly in recent quarters and subsequently further slowed down when negotiations with the SME Bondholders began, it still carries out its operating business as detailed above. Xuzhou Zhongwei continues to record sales and hold inventory, and as such the Company is of the view that Xuzhou Zhongwei is continuing an operating business. In particular, the Company wishes to emphasize that the actual revenues as reported by Xuzhou Zhongwei were as follows:

- (a) The revenue of Xuzhou Zhongwei for the quarter ended 31 March 2015 was RMB 302.3 million;
- (b) The revenue of Xuzhou Zhongwei for the quarter ended 30 June 2015 was RMB 71.1 million;
- (c) The revenue of Xuzhou Zhongwei for the quarter ended 30 September 2015 was RMB 30.2 million;
- (d) The revenue of Xuzhou Zhongwei for the quarter ended 31 December 2015 was RMB 11.3 million;
- (e) The revenue of Xuzhou Zhongwei for the quarter ended 31 March 2016 was RMB 6.4 million;
- (f) The revenue of Xuzhou Zhongwei for the quarter ended 30 June 2016 was RMB 5.2 million;
- (g) The revenue of Xuzhou Zhongwei for the quarter ended 30 September 2016 was RMB 3.2 million; and
- (h) The revenue of Xuzhou Zhongwei for the quarter ended 31 December 2016 was RMB 4.8 million.

- 2.1.21 The businesses of Xuzhou Zhongchuang, CCMHK and Rich Circles are also still operating as going concerns. As Xuzhou Zhongwei still services orders from the customers as set out in Section 2.1.19 above and records revenues, as set out in Section 2.1.20 above, and negotiations with the SME Bondholders are still ongoing, the active business of Xuzhou Zhongwei is still a going concern. Whether Xuzhou Zhongwei can continue operating as a going concern will depend on the results of the ongoing negotiations with the SME Bondholders.

The business of Xuzhou Zhongwei still forms part of the business of the Company

- 2.1.22 Notwithstanding the decrease in the Company's control over the Rich Circles Group, the Company wishes to emphasize that the business of Xuzhou Zhongwei still forms a key part of the Company's business. In particular, the Company wishes to highlight the following:

- (a) The Company has reported "zero Revenue" in the financial statements in respect of the 18-month period ended 30 June 2016, the financial quarter ended 30 September 2016 and 2Q2017 solely because it had adopted the more appropriate basis of accounting of "equity accounting for associated company" instead of "full consolidation for subsidiary company" as a direct result of the relative restrictions on its effective operating control over Xuzhou Zhongwei imposed by the SME Bondholders pursuant to Xuzhou Zhongwei's default in the prompt repayment of the SME Bonds on 28 March 2016, as highlighted in the Results Announcement.
- (b) The Company's auditors, Foo Kon Tan LLP, have assessed the situation and concurred with Management's view and decision in adopting the "equity accounting for associated company" basis of accounting in this year's financial result reporting.
- (c) Notwithstanding the difficulties faced by the Company and Xuzhou Zhongwei in relation to the SME Bonds, the business of Xuzhou Zhongwei currently still forms part of the Company's business for the following reasons:
 - (i) Mr. Huo Weisheng, the Chief Operating Officer of the Company and the local legal representative of Xuzhou Zhongwei, continues to be actively engaged in its ongoing operations including but not limited to the current negotiations with the SME Bondholders for a mutually acceptable settlement agreement;
 - (ii) The Company indirectly owns 54.46% of Xuzhou Zhongwei and still has direct contact with the other key operating personnel of Xuzhou Zhongwei, who are supervised directly by Mr. Huo Weisheng;
 - (iii) Notwithstanding the loss of Ms. Li Yaxin's support, the Company still remains the single largest indirect shareholder in Xuzhou Zhongwei and is entitled to its rights arising as shareholder in respect thereof;
 - (iv) The Chief Financial Officer of the Company, Mr. Mak Tin Sang, retains his seat on the board of directors of the Rich Circles Group, allowing the Company to exercise a degree of influence and control over the actions that require approval by its board of directors of the Rich Circles Group including but not limited to the Rich Circles Group's wholly-owned subsidiary Xuzhou Zhongwei.
 - (v) The Company continues to observe and monitor the business of Xuzhou Zhongwei and participates in negotiations with the SME Bondholders;
 - (vi) The Company continues to enjoy the economic benefits of its investment in Xuzhou Zhongwei; and
 - (vii) While the Company may not direct all management activities in Xuzhou Zhongwei, it has the reasonable right to participate in the formulation of its business strategies and important operating issues discussion through Mr. Huo Weisheng.

Recovery of the Company's Investment

- 2.1.23 The Company is still assessing the recovery of its RMB 61 million loan from the Rich Circles Group. Xuzhou Zongwei's reported net asset value of RMB 193.2 million as at 30 June 2016 is sufficient to repay the total loan from shareholders to the Rich Circles Group of RMB 112 million comprising the RMB 61 million owed to the Company and RMB 51 million owed to Ms. Li Yaxin. As Xuzhou Zhongwei has defaulted in its repayment of the SME Bonds, Management is closely monitoring the progress of the abovementioned negotiations between Xuzhou Zhongwei and the SME Bondholders to determine whether there will be any significant impact of the recovery of the Company's RMB 61 million loan from the Rich Circles Group. The Company will continue to assess its recovery of the investment in light of the ongoing negotiations and other options of realising its returns, including but not limited to demanding repayment of the debt and/or a sale of the Company's interest in Rich Circles.

2.2 The Entertainment Business

- 2.2.1 The Company had incorporated two wholly-owned subsidiaries, Asia Entertainment Limited and Asia Entertainment HK, in September 2016 to allow the Company to be directly and actively involved in business in the media and entertainment industry in Hong Kong and the People's Republic of China.
- 2.2.2 Since inception, the AE Subsidiaries have already secured collaborations with well known Hong Kong-based industry players on entertainment-related projects such as live shows and concerts. In particular, the Company had announced the successful completion of the following projects:

(a) W-inds 15th Anniversary Live Tour "Forever Memories" Concert

On 5 October 2016, 21 October 2016 and 11 November 2016, the Company announced, *inter alia*, that Asia Entertainment HK had, in collaboration with G Music and various other service providers, invested into the joint organisation and promotion of the W-inds HK Concert held on 5 November 2017. The amount invested by Asia Entertainment HK into the W-inds HK Concert was HK\$315,000. The W-inds HK Concert was of a total size of 3,000 seats. The income generated from the W-inds HK Concert was on a price-per-ticket basis and Asia Entertainment HK made a profit from this event.

G Music is a Hong Kong-based entertainment company focusing on the planning, organization and marketing of music-related concerts, shows and other functions. Since 2008, G Music has organized numerous "sold-out" events in Hong Kong starring regional celebrities such as Girls' Generation, Namie Amuro, and Lee Min Ho.

W-inds is a popular Japanese dance boy group under the Pony Canyon label with a fan base that extends to countries such as China, Taiwan and Hong Kong.

The W-inds HK Concert was held in Hong Kong on 5 November 2016. The tickets for the W-inds HK Concert were fully sold out, and the concert was performed before a full house. The W-inds HK Concert generated positive responses from the media, and was attended by the Honorable Mr. Kininori Matsuda, the Consul-General of Japan in Hong Kong.

(b) Camomile Acoustic Night

On 16 November 2016 and 1 December 2016, the Company announced that Asia Entertainment HK had, in collaboration with G Music, jointly organised and promoted the "Camomile Acoustic Night – Emi Fujita Live in HK 2016" concert held in Hong Kong on 28 November 2016 and 29 November 2016. The amount invested by Asia Entertainment HK into this concert was HK\$38,962. The concert was of a total size of 470 seats. The income generated from the concert was on a price-per-ticket basis and Asia Entertainment HK did not make a profit from this event.

Emi Fujita is a Japanese female singer who has gained a reputation of “Sound Therapy” and has released several solo albums that have charted in Japan. Her album “Camomile” had also received Platinum Disc and Golden Disc Awards in Hong Kong, Taiwan, Singapore and Malaysia. Emi Fujita’s last concert in Singapore, held in 2010 at the Esplanade Concert Hall, was completely sold-out.

(c) **FFG X AEG E-1 K.O. World Championship**

On 24 October 2016, the Company announced that Asia Entertainment HK had on 21 October 2016 entered into an agreement with Fight Factory Gym Limited to jointly invest in, organise and promote the Boxing Championship. The amount invested by Asia Entertainment HK into the Boxing Championship was HK\$400,000. The concert was of a total size of 1,000 seats. The income generated from the concert was on a price-per-ticket basis as well as corporate sponsorship and Asia Entertainment HK did not make a profit from this event.

Fight Factory Gym Limited is a Hong Kong-based martial arts and fitness company founded in 2012 and an organisation of international Muay Thai competitions. Fight Factory Gym Limited provides professional martial arts training courses such as boxing, Muay Thai and mixed martial arts, as well as numerous types of fitness training. Fight Factory Gym Limited has five training centres located in prime locations in Hong Kong.

On 19 January 2017, the Company announced that the Boxing Championship was successfully held in Hong Kong on 17 January 2017. The Boxing Championship generated much publicity, with coverage in various Hong Kong media outlets. A match of the Boxing Championship was broadcasted live by Hong Kong television station Television Broadcasts Limited and such match was also broadcasted on the Pearl Channel on 5 February 2017.

- 2.2.3 Through the AE Subsidiaries as its main operating entities, the Group continues to actively explore and pursue business opportunities and strategic partnerships in the media and entertainment industry in the Greater China region to continually develop and grow the Group’s business. The Board will provide prompt updates on this business initiative to Shareholders from time to time.

2.3 Distribution of Healthcare Products

- 2.3.1 The Company has recently incorporated a new subsidiary, Shanghai Daiyoulong, on 17 March 2017, which is engaged in the business of trading and wholesale distribution of new materials (being nano-based healthfoods and healthcare products), electronic devices, accessories, food products and healthcare products. With this new subsidiary, the Company intends to commence active business in the wholesale distribution of reputable healthcare products in the People’s Republic of China. It is intended that the required certifications and licenses for such sales and distribution be obtained from the relevant authorities in the People’s Republic of China. This new line of business is being spearheaded by Mr. Zhang Wei (the non-executive Chairman of the Company) and Mr. Zhu Zhi Hong (a newly-appointed executive director of the Company), both of whom possess valuable expertise and experience in the sales and distribution industry in the People’s Republic of China. Mr. Mak Tin Sang, the Chief Financial Officer of the Company also possesses over 20 years of experience in trade in the People’s Republic of China with his previous jobs prior to the commencement of his employment with the Company in May 2015. The Board will provide prompt updates to Shareholders on the development of this new business initiative from time to time.

2.4 The Company is Not a Cash Company

- 2.4.1 The Company is of the view that it is not a cash company as the Company currently owns assets that have operating businesses as set out in Sections 2.1 to 2.3 above, and the assets of the Company do not consist wholly or substantially of cash or short-dated securities.

The Company's assets include Xuzhou Zhongwei's business

- 2.4.2 The business of Xuzhou Zhongwei still forms a key part of the Company's business. As explained in detail in Section 2.1 above, the reason that the Company has reported "zero Revenue" in the financial statements in respect of the 18-month period ended 30 June 2016, the financial quarter ended 30 September 2016 and 2Q2014 is solely because the Company has adopted the basis of accounting of "equity accounting for associated company" instead of "full consolidation for subsidiary company" for the reasons mentioned in Sections 2.1.14 to 2.1.18 above, as it currently co-operates and complies with the reasonable requests of the SME Bondholders in respect of major decision making in the sales and financial aspects of Xuzhou Zhongwei. Such co-operation is necessary to give the Company and the Group the latitude to fully assess its options in relation to the SME Bonds. However, notwithstanding this, through Mr. Huo's on-site management and involvement in Xuzhou Zhongwei's daily operations, the Company is still actively involved in Xuzhou Zhongwei's daily operations.
- 2.4.3 Notwithstanding the change in the basis of accounting and decreased control of the Company in Xuzhou Zhongwei mentioned in Sections 2.1.14 to 2.1.18 above, the Company still indirectly owns a 54.46% of Xuzhou Zhongwei, is entitled to economic benefits from such stake in Xuzhou Zhongwei, and retains a reasonable degree of control in the business of Xuzhou Zhongwei, including taking part in negotiations with the SME Bondholders through Mr. Huo Weisheng. As explained in detail in Sections 2.1.2 and 2.1.22(c) above, the Chief Operating Officer of the Company, Mr. Huo Weisheng, still performs, *inter alia*, the roles of legal representative, supervisor of key operating personnel, manager and negotiator for Xuzhou Zhongwei, and the Chief Financial Officer of the Company, Mr. Mak Tin Sang, is a director of the Rich Circles Group.
- 2.4.4 Given that Xuzhou Zhongwei still services orders from customers and reports revenues from such services (as set out in detail in Section 2.1 above), Xuzhou Zhongwei still has a running business notwithstanding its inability to repay the SME Bonds due to the significant drop in revenue as a result of the discontinuation of orders from Han Energy and Baota.
- 2.4.5 Furthermore, negotiations with the SME Bondholders are ongoing, giving the Company and Group room to assess its options in relation to the SME Bonds. These options include, *inter alia*, settlement of the SME Bonds and the granting of operational control to the Company with a view to enhance the existing value of the Materials Business. In this regard, the Company and Group have not lost control of Xuzhou Zhongwei to the SME Bondholders.

The Company's assets include the AE Subsidiaries' media and entertainment business and Shanghai Daiyoulong's intended healthcare product business

- 2.4.6 As set out in Section 2.2 above, the Company had incorporated the AE Subsidiaries in September 2016 to allow the Company to be directly and actively involved in business in the media and entertainment industry in Hong Kong and in the mainland of the People's Republic of China. Owing to this new entertainment business of the Company, the Company and the Group have collectively reported income classified as other "other operating income" for 2Q2017 of RMB336,000. Such income was generated out of the entertainment projects mentioned in Section 2.2.2 above.
- 2.4.7 Further, as set out in Section 2.3 above, the Company had, in March 2017, incorporated a new subsidiary, Shanghai Daiyoulong, to commence an active business in the distribution of reputable healthcare products, namely nano-based healthfoods, in the People's Republic of China.
- 2.4.8 From the development of the Company's new businesses as set out above, Management is highly confident that the Company will participate more actively in these new promising business areas, which will provide avenues for the Company's growth and expansion going forward.
- 2.4.9 Therefore, in light of the fact that the Company's assets do not consist wholly or substantially of cash or short-dated securities, and the Company has subsidiaries with operating businesses, the Company submits that it is not a cash company pursuant to Listing Rule 1018 of the SGX-ST Listing Manual.

2.5 **Past Fund-Raising Exercises and Impact on Performance**

- 2.5.1 The details of the Company's past fund-raising exercises in 2015 and 2016 and use of the proceeds thereof have previously been set out in, *inter alia*, the Company's announcement dated 1 December 2016 in Appendix B. As illustrated in Appendix B and summarised in Section 2.5.2 below, the proceeds have mainly been used for working capital purposes (in particular, to settle normal operating expenses, to settle the expenses relating to the Qianfeng Claims case, and to invest in the acquisition of the Materials Business, and the development of new lines of business such as the media and entertainment business).
- 2.5.2 The aggregate net proceeds of S\$14.501 million of the fund-raising exercises in 2015 and 2016 were used as follows:

Amounts (S\$ '000)

NET PROCEEDS RAISED

Placement of 100,000,000 Pre-consolidation shares in February 2015	2,750
Issuance of 7% Convertible Bonds to Alternus in March 2015	2,527
Placement of 58,800,000 Pre-consolidation shares in April 2015	3,200
Placement of 100,397,362 Pre-consolidation shares to Ms. Li Yu Huan as Capitalization and offset of net balance of 7% Bonds due to Ms. Li at date of such placement. No cash was involved	6,024

TOTAL NET PROCEEDS RAISED

14,501

APPLICATION OF PROCEEDS

Staff salaries and directors' remuneration	989
Corporate and legal fees	598
Listing expenses	287
Office rental and deposit	1,018
Pre-acquisition due diligence, legal valuation and audit fees and related expenses	366
Special review fee and related expenses – PWC	615
Annual audit fee and related expenses	593
Settlement of other professional expenses	235
Settlement of other operating expenses	261
Investment Loan to Rich Circles in relation to the increase in the Company's shareholding in Rich Circles to 54.46%	2,400
Repayment of interest to bondholders	976
Offset against balance of Bonds due to Ms. Li Yu Huan as Capitalization	6,024
Other miscellaneous expenses	139

APPLICATION OF TOTAL NET PROCEEDS

14,501

Use of Proceeds in Respect of the Qianfeng Claims Case

Background

- 2.5.3 In 2013, under the management of Mr. Lin Daoqin who was the previous Executive Director and Chief Executive Officer of the Company, Fujian Qianfeng Textile Technology Co. Ltd. received claims amounting to RMB 517 million from Fuzhou Fule Shoe Material Co., Ltd, Fuqing Zhongliangxingye Shoe Material Co., Ltd, Haining Hanchen Textile Co., Ltd, Dongguan Jiarui Shoe Material Co., Ltd, Dongguan Jingfeng Fiber Technology Co., Ltd, Putian Xianglong Shoes and Clothes Co., Ltd, Jinjiang Xuri Textile Co., Ltd and Dongguan Yuanzhan Textile Co., Ltd for delivered products that allegedly failed to meet customers' specified requirements. As set out above, a significant amount of proceeds were utilized to resolve disputes and issues in relation to these Qianfeng Claims including, *inter alia*, fees relating to the settlement of the Qianfeng Claims, which was an unavoidable operating expense.

- 2.5.4 In connection with the Qianfeng Claims, on 28 March 2014 and 31 March 2014, the Company disclosed that as part of the Company's effort to enhance its corporate governance, the Company had on 25 October 2013 engaged PwC to review the cash and bank balances of the Company's Previous Key Subsidiaries for the 9-month period ended 30 September 2013. The report issued by PwC issued on 7 May 2014 highlighted significant governance and other issues which indicated possible impropriety, and lack of satisfactory controls and procedures on payments.
- 2.5.5 On 30 May 2014, the Board announced that Mr. Lin Daoqin resigned as the Executive Director and Chief Executive Officer of the Company with effect from 30 May 2014. In connection with his resignation, Mr. Lin Daoqin had expressed that he wished to take responsibility for the various issues faced by the Group, including the Qianfeng Claims, and the various issues highlighted by PwC in its report issued on 7 May 2014 on its review of the cash and bank balances of the Company's key subsidiaries.
- 2.5.6 On 30 May 2014, the Company announced that it had appointed HLB Atrede LLP as its internal auditors to assess the effectiveness of the internal controls systems of the Company and its subsidiaries, addressing financial, operational, compliance and information technology risks as well as the risk management system. On 14 August 2014, the Company announced that HLB Atrede LLP had issued the HLB Report containing its findings. The Company also announced that it had engaged Dacheng Law Offices to issue a legal opinion in respect of the issues identified in respect of the compensation claims and the PwC Report. The Board had also made a police report in the People's Republic of China for investigations on possible impropriety on the issues highlighted in the PwC Report. Further to this, on 1 September 2014 the Company announced that that it had implemented measures to address the areas of improvement highlighted in the HLB Report.
- 2.5.7 On 8 September 2014, the Company announced further updates on the outstanding issues and the engagement of HLB Atrede LLP to commence review of the new controls and measures outlined in the Company's announcement on 1 September 2014. On 16 October 2014, the Company announced that HLB Atrede LLP had issued an update report in respect of its findings, which indicated that there were no further outstanding issues for the Company's action.

Expenses Incurred

- 2.5.8 The expenses in connection with the above resulted in aggregated amount of approximately S\$1,053,000 including special audit fees of S\$615,000 and corporate expenses of S\$438,000.
- 2.5.9 While these expenses were substantial, the Company was of the view that this was a necessary and unavoidable expense in light of the Company's contractual obligations to the claimants and in view of the findings in PwC's report dated 7 May 2014, which highlighted significant governance and other issues when the Company was run by the old management team that indicated, *inter alia*, possible impropriety and lack of satisfactory controls and procedures on payments. Following the receipt of the PwC report, the new Management of the Company was keen to take active steps to address these issues to safeguard the interest of Shareholders and creditors and to work towards taking steps to ensure the conduct and continuity of the Company's businesses in the long-term. The Company recognises the importance of sound internal controls and risk management practices as part of good corporate governance that safeguards shareholders' interests and the Group's assets and have therefore dedicated the relevant resources towards establishing the appropriate standards in its internal systems and controls to enable it to provide its Shareholders reasonable assurance against material financial misstatements or loss, the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices, and the identification and containment of financial, business and compliance risks.

Use of Proceeds in respect of Investments for Business Development

- 2.5.10 The Company has previously looked to enhance Shareholder value by acquiring its current Materials Business, and also by its previous proposed acquisition of a 70% equity stake in Boya Lianli (Beijing) Investment Limited (as announced in the announcement dated 2 March 2016) to enter the media and entertainment business. The Company constantly strives to forward the best interests of its Shareholders through its continuous pursuit of opportunities for business development and growth in new industries.

- 2.5.11 In identifying and making investments, the Company seeks to take prudent steps by conducting pre-acquisition due diligence, legal valuation, financial due diligence and audit, and such other steps to ensure to the best of its ability that the investments are sound. This can be seen from, *inter alia*, the pre-acquisition due diligence and audit fees and related expenses of approximately S\$520,000 and the settlement of pre-acquisition due diligence, legal valuation and other related expenses of S\$366,000 out of the net proceeds raised in the 2015/2016 fund raising exercises disclosed under Section 2.5.2. Therefore, notwithstanding that the current financial performance of the Company and the unfortunate circumstances following its investment in the Materials Business, the Company has used the proceeds from its fund-raising activities to take reasonable precautions in its investment decision making processes and to make reasonable business judgments.
- 2.5.12 One salient example is the Company's investment into CCMHK, Xuzhou Zhongchuang and Xuzhou Zhongsen (currently known as Xuzhou Zhongwei). The Company had taken sound steps to consider the potential of the investment by conducting due diligence, valuation and audits. In arriving at its decision, the Company had taken into account, *inter alia*, the net tangible value of Xuzhou Zhongsen as at 31 December 2013, the net profit after tax of Xuzhou Zhongsen for the year ended 31 December 2013, and the historical performance and potential business growth of Xuzhou Zhongsen. Only after such a positive pre-acquisition review did the Company then decide to invest in the Materials Business.
- 2.5.13 The unfortunate events in relation to the respective discontinuation and abortion of the Baota and Hanergy orders with Xuzhou Zhongwei and the resultant default in the SME Bonds were beyond the Company's reasonable ability to foresee or control. As such, the lack of success in the Company's investment into the Materials Business should not detract from the Company's reasonable utilisation of the proceeds of its fund-raising exercises in its sound approach to business growth and development.

Unavoidable Costs Incurred

- 2.5.14 As is evident from the figures above, a significant portion of the proceeds of the fund raising activities in 2015 and 2016 were spent on normal operating expenses. Such normal operating expenses include (but are not limited to) office rental and related deposits, listing expenses, professional expenses (such as corporate, legal and audit fees), staff salaries and directors' remuneration, which are unavoidable and are part of maintaining an operating business. Currently, the Group has 6 directors, 3 executive officers (all of whom are currently not being remunerated) and 3 supporting staff. While the Company has sought to minimise such expenses, the Company has had to fork out such sums in order to keep its business going despite the difficult circumstances that the Company unfortunately faced. The Company's efforts to minimise its expenses can be seen from the small number of staff in employment and the executive officers working without remuneration. Considering the need for the development of the Company's new lines of business, the maintainance of an effective and efficient management and control of the Group, compliance with SGX's regulatory requirements, and the upholding of good corporate governance standards, the Company considers the size of its staff and directors appropriate to strike a balance among such needs.

Conclusion

- 2.5.15 The Company has been constantly working to safeguard the interests of its Shareholders and its creditors, while ensuring compliance with appropriate legislation, regulations and best practices to the best of its abilities. As highlighted above, the Company has expended significant resources raised from the fund raising activities on the resolution of the Qianfeng Claims case and improving its corporate governance and sound internal controls and risk management practices, as well as in identifying and making investments that the Company has identified to be of good value and in the best interests of the Company, its Shareholders and its creditors. Furthermore, the Company takes prudent steps in identifying and making investments, by spending significantly on pre-acquisition due diligence, legal valuation, audit fees and other expenses to ensure to the best of its ability that the investments are sound.

2.6 Requirement for Further Fund-raising by the Company

- 2.6.1 As elaborated in detail above, the eventual difficulties surrounding the Company's decision to invest into Rich Circles, CCMHK, Xuzhou Zhongchuang and Xuzhou Zhongwei were not foreseeable by the Company, given that, *inter alia*, Hanergy Thin Film Power Group Limited (the holding company of Han Energy, which was a major customer of Xuzhou Zhongwei) was listed on the HKEx with a large market capitalisation and the suspension of trading in its shares on the HKEx in July 2015 was related to the unexpected sudden plunge in the value of its shares by 47% within half an hour on 20 May 2015, prior to which Hanergy Thin Film Power Group Limited had announced impressive audited financial results.
- 2.6.2 Notwithstanding the difficulties surrounding the Materials Business, the Company has strived to overcome the odds and has been relentlessly exploring avenues for the resolution of the matter, by continually holding negotiations with the SME Bondholders, working to ensure as far as possible that Xuzhou Zhongwei continues its normal business operations through Mr. Huo Weisheng and the local representative(s) designated by the SME Bondholders. The Company has also attempted to diversify its cash flow and risk profile through the development of alternative businesses in accordance with the rules of the Listing Manual, such as its business in the media and entertainment industry in the Greater China region through the AE Subsidiaries.
- 2.6.3 In tandem with the abovementioned efforts to diversify its sources of operating income and to seek a workable resolution to the difficulties in relation to the Materials Business, the Company requires additional funds for the following reasons:
- (a) The Company needs to repay the Alternus Convertible Bonds of S\$2,660,000 and the Prime 10% Coupon Bonds of HK\$10 million by the respective extended repayment dates thereof in early May 2017. The Company owes contractual obligations to its creditors which it is obliged to fulfill and any default in repayment by the Company would not be in the interest of its Shareholders, particularly minority Shareholders.
 - (b) The Company needs funds for its normal and reasonable minimum operational costs (which also includes but is not limited to the funds required to raise financing and for compliance). In this regard, the Company is in strong and urgent need to replenish its working capital to keep the Company and Group operating in an efficient and solvent manner, so that Management can focus its efforts on growing and developing the business.
 - (c) Consistent with the Company's efforts to diversify its lines of business, the Company has identified good opportunities in the media and entertainment business in the Greater China region which requires some funding. The Company wishes to clarify that such opportunities do not involve any form of mergers or acquisitions at this stage.
- 2.6.4 The Company intends to meet its debt obligations through a combination of the four following measures:
- (a) By generating operating income through the development of new businesses, as permitted under the rules of the Listing Manual. As mentioned in Section 2.6.3(c) above, this may be partially funded by the Proposed CB Issuance and Proposed Share Placement;
 - (b) By persuading its major creditors (such as holders of bonds or convertible bonds) to extend the repayment date at reasonable commercial terms;
 - (c) By raising funds through the issuance of new convertible bonds (i.e. the Proposed CB Issuance) and the placement of new shares to investors (i.e. the Proposed Share Placement); and
 - (d) By borrowing reasonable sums of working funds from major shareholders and/or directors.

- 2.6.5 The Company wishes to emphasise that it takes a long-term view to the conduct and continuity of its business and its fund-raising activities, and will prioritise the measures that are most sustainable and best serve the interests of Shareholders while taking into account the interests of creditors and ensuring compliance with appropriate legislation, regulations and best practices. In this regard, the primary long-term focus of the Company remains on the resolution of the issues in respect of the Materials Business and on the development of its business in areas of promising growth and opportunity. The measures to fulfil its debt obligations, including the Proposed CB Issuance and Proposed Share Placement, are intended to meet the immediate needs of the Company (i.e. repayment of debts, refinancing and the raising of working capital) while the Company works towards its long-term investment and developmental goals.
- 2.6.6 The Company has provided the Placees and Mr. Dai Ji Zhou with full and frank details of the Company's situation, and they have expressed confidence in their prospective investment and Management's stewardship of the Company. In this regard, the Company is of the view that undertaking the Proposed CB Issuance and the Proposed Share Placement with full and frank disclosure to all parties concerned best serves the balance of protecting the interests of its Shareholders (including minority Shareholders) and its creditors alike.
- 2.6.7 Going forward, the Company is confident that with its sound approach to investments, its strategy of expanding into promising businesses, and its continuing efforts to resolve the situation in respect of Rich Circles and Xuzhou Zhongwei, it will be able to put the funds raised to good use and work to benefit the interests of Shareholders.
- 2.6.8 Currently, the Company has managed to generate operating income through the AE Subsidiaries. In the unaudited financial statements for the second quarter and six months ended 31 December 2016 announced on 13 February 2017, the Company recorded an "other operating income" of RMB 336,000. Going forward, the Company seeks to concurrently expand into promising industries while concurrently working to resolve the situation surrounding the Materials Business. The current debt gearing ratio of the Company is approximately 62.35%. This ratio will improve to approximately 53.75% after both the Proposed CB Issuance and Proposed Share Placement have been completed. The Company aims to increase its other operating income to fund future efforts to develop its lines of business, as well as to repay debts as they fall due.

3. INFORMATION

3.1 Information on the Proposed CB Issuance

- 3.1.1 On 25 November 2016, the Company had entered into the Convertible Bond Agreement with Mr. Dai Ji Zhou, whereby Mr. Dai Ji Zhou has agreed to subscribe for the Convertible Bonds, which are to be of an aggregate principal amount of S\$2,100,000. Mr. Dai is currently the Chairman and prime shareholder of "Superior Idea Investment Group Limited" (佳意投资集团有限公司) a company registered and operating in Hong Kong, which has gradually transformed from engagement in technology related business to investment related businesses in recent years. Mr. Dai Ji Zhou does not currently own any shares or convertible securities in the Company. Mr. Dai Ji Zhou was introduced by Mr. Chong Tin Yam, Alex, the Chief Executive Officer and an Executive Director of the Company, whose role includes overseeing the overall operations and working closely with the Board in devising strategic business development plan for the Group and seeking and identifying investors to participate in the Company's fundraising exercises. Mr. Chong Tin Yam, Alex and Mr. Dai Ji Zhou met through mutual business contacts in China and have known each other for almost a decade. No commission was paid to Mr. Chong Tin Yam, Alex. As no commission is payable in respect of the referral, there will therefore be no commission shared with Mr. Dai Ji Zhou. Mr. Dai Ji Zhou is an entrepreneur currently residing in Hong Kong and has been running his own technology and investment related businesses in various cities in China for more than 20 years. He has also been actively making private investments in the property and stock market in China, U.S.A., Hong Kong and selected overseas market in the last 15 years. Mr. Dai Ji Zhou has invested in the Convertible Bonds for private investment purposes.

- 3.1.2 Notwithstanding that the Convertible Bonds are convertible into up to 7,260,000 Shares (representing approximately 14.376% of the existing issued and paid-up share capital of the Company), as the Conversion Price of S\$0.35 per Conversion Share and the Mandatory VWAP Price of S\$0.55 per Share are significantly greater than the current trading price of the Shares (as at the Latest Practicable Date) at S\$0.183 per Share it would be commercially disadvantageous for Mr. Dai Ji Zhou to convert the Convertible Bonds at this stage and it would be unlikely for the mandatory conversion obligation to occur. If the Convertible Bonds are converted, Mr. Dai Ji Zhou would not become the single largest shareholder in the Company as Mr. Yuan Limin would remain the single largest shareholder in the Company. Further details are set out in Section 7.
- 3.1.3 Mr. Dai Ji Zhou has no connection (including business relationships) with the Company, its Directors, its substantial shareholders, or any of their associates. Under the terms of the Convertible Bond Agreement, Mr. Dai Ji Zhou has represented, warranted and undertaken to and for the benefit of the Company, *inter alia*, that it is not acting in concert with any other investor or shareholder of the Company in relation to the Convertible Bonds and/or the shares to be issued thereunder. Mr. Dai Ji Zhou will not be holding the Convertible Bonds in trust as a nominee for any entity or person.
- 3.1.4 There are no share borrowing arrangements to facilitate the Proposed CB Issuance.
- 3.1.5 The principal terms and conditions of the Convertible Bonds are summarised below.

<u>Issue Size</u>	:	S\$2,100,000 in aggregate principal amount of Convertible Bonds.
<u>Issue Price</u>	:	100% of the principal amount of the Convertible Bonds.
<u>Interest</u>	:	The Convertible Bonds will bear interest at the rate of 7.0% per annum, payable quarterly in arrears.
<u>Maturity Date</u>	:	The date that is three (3) years from the date of the issue of the Convertible Bonds.
<u>Early Redemption at the Option of the Company</u>	:	The Company may, at any time within the period commencing the seventh (7 th) month from the issue date up until the Maturity Date, (i) having served the Redemption Notice to the bondholder at least ten (10) days in advance and (ii) having not received any conversion notice from the bondholder within the Redemption Conversion Period (i.e. the period of fifteen (15) days after the date of receipt of the Company's Redemption Notice), redeem all (and not some only) of the Convertible Bonds then outstanding at 103% of the principal amount, together with all accrued and unpaid interest that was scheduled to be paid on (but excluding) the redemption date.
<u>Purchase</u>	:	The Company and/or any of its related corporations may at any time purchase Convertible Bonds from the bondholder at any price. All Convertible Bonds purchased by or on behalf of the Company or any of its related corporations may be surrendered for cancellation by and, if so surrendered, shall together with all Convertible Bonds redeemed by the Company, be cancelled forthwith.

Note:

The Company confirms that it has currently no intention of purchasing the Convertible Bonds from the bondholder unless: (i) the bondholder sells the Convertible Bonds at a discount from par before the Maturity Date, (ii) the Company is financially able to make such purchase, and (iii) the terms of such purchase are financially advantageous to the Company

Conversion Price : S\$0.35 for each ordinary share

Adjustments to the Conversion Price : No adjustments to the Conversion Price shall be made in respect of any issue of shares and/or convertible securities and/or warrants by the Company, and/or in the event of any rights, bonus or other capitalisation issues by the Company, save as follows:

- a. In the event that a Share Consolidation Exercise occurs, the Conversion Price shall be adjusted in the following manner:

$$\begin{array}{rcl} \text{New Conversion Price} & = & \frac{\text{Aggregate number of issued and paid-up Shares immediately before such Share Consolidation Exercise}}{\text{Aggregate number of issued and fully paid-up Shares immediately after such Share Consolidation Exercise}} \times X \end{array}$$

X = existing Conversion Price

Such adjustments will be effective from the close of the Stock Exchange Business Day immediately preceding the date on which the consolidation becomes effective.

- b. The Company may also, in consultation with the bondholder, effect such other adjustments to the Conversion Price as may be required to comply with mandatory provisions of Singapore law and/or the requirements of the SGX-ST.

Conversion Period : Three (3) months from the issue date up until the Maturity Date

Voluntary Conversion

The bondholder may convert all or part of the outstanding Convertible Bonds and any accrued and unpaid interest in respect of each Convertible Bond into new ordinary shares at the Conversion Price at any time within the period commencing three (3) months from the issue date up until the Maturity Date, Provided Always that (i) the bondholder shall not have a conversion right in the event that the Company serves a Redemption Notice and the Redemption Conversion Period has expired; and (ii) the minimum aggregate principal amount of Convertible Bonds to be converted in any single conversion of Convertible Bonds shall be S\$700,000.

Mandatory Conversion

Upon the occurrence of the volume weighted average price for trades done on the shares of the Company on the SGX-ST remaining at the Mandatory VWAP Price of S\$0.55 per Share and above for a consecutive period of fifteen (15) Stock Exchange Business Days on the SGX-ST falling within the period commencing three (3) months from the issue date up until the Maturity Date, the bondholder shall be required to convert all of the outstanding Convertible Bonds and any accrued and unpaid interest in respect of each Convertible Bond (if and where the bondholder waives its right for cash payment of such amount) into new ordinary shares at the Conversion Price.

Provided Always that:

- a. If trading is not available for a full Stock Exchange Business Day, the volume weighted average price for trades done on the shares of the Company on the SGX-ST for that particular Stock Exchange Business Day(s) shall be disregarded for the computation of the consecutive period of fifteen (15) Stock Exchange Business Days, and the consecutive period shall not be treated as being non-consecutive solely due to trading not having been available for such full Stock Exchange Business Day.
- b. In the event that a Share Consolidation Exercise occurs, the Mandatory VWAP Price shall be adjusted as follows:

$$\text{New Mandatory VWAP Price} = \frac{\text{Aggregate number of issued and paid-up Shares immediately before such Share Consolidation Exercise}}{\text{Aggregate number of issued and fully paid-up Shares immediately after such Share Consolidation Exercise}} \times A$$

A = existing Mandatory VWAP Price

Such adjustments will be effective from the close of Stock Exchange Business Day immediately preceding the date on which the consolidation becomes effective.

Transfer-ability : Each of the Convertible Bonds is registered with the Company and is transferable in accordance with the terms and conditions of the Convertible Bonds and the provisions of the Convertible Bond Agreement. Title to the Convertible Bonds passes only on due registration in the register of bondholders of the Company. The certificate in respect of a Convertible Bond must be surrendered before any transfer of such Convertible Bond will be registered. The Company is entitled in all circumstances to treat the registered owner(s) as the sole true owner of the respective Convertible Bond(s).

The bondholder may not transfer the Convertible Bonds registered in his name to any third party except with the prior written consent of the Company.

The Company and bondholder has undertaken not to allow the transfer of any of the Convertible Bonds to any of the persons set out in Rule 812 of the Listing Manual.

Events of Default : There are no events of default.

Status of the Convertible Bonds : The Convertible Bonds constitute unsecured, direct, subordinated and unconditional obligations of the Company which shall at all times rank *pari passu* and without any preference or priority among themselves.

Status of the Conversion Shares : The Convertible Bonds will be converted into ordinary shares in the capital of the Company, which have the rights set out in the Bye-laws. The new ordinary shares shall rank *pari passu* with ordinary shares in issue on the conversion date and shall carry the right to receive all dividends and other distributions declared after the conversion date.

Participation Rights : Save in their capacity as holders of Conversion Shares after the conversion of the Convertible Bonds (where applicable), the holders of the Convertible Bonds will not have any right to participate in any distributions and/or offers of further securities made by the Company.

Liquidation : In the event that the Company goes into liquidation, the Convertible Bonds will rank:

- a. junior to any present and future secured debt obligations of the Company;
- b. on parity among themselves;
- c. at least on parity with all other present and future unsecured and unsubordinated obligations (other than subordinated obligations and priorities created by law) of the Company; and
- d. senior to all classes of shares in the capital of the Company.

Governing Law : Singapore law.

- 3.1.6 No application has been or is intended to be made to any listing authority, stock exchange or other market for the Convertible Bonds to be listed or otherwise traded. Approval has been sought and obtained for the listing and quotation of the Conversion Shares on the SGX-ST.
- 3.1.7 Notice of the maturity of the Convertible Bonds will be sent at least 1 month before the expiration date to Mr. Dai Ji Zhou (or such other transferees pursuant to a valid transfer of the Convertible Bonds).
- 3.1.8 Where required by the SGX-ST, any material alteration to the terms of the Convertible Bonds after issue to the advantage of the holders of such Convertible Bonds will need to be approved by shareholders, except where the alterations are made pursuant to the terms of the issue. There shall not be any extension of the exercise period or replacement of the Convertible Bonds and/or changing of the Conversion Price and/or ratio of the Convertible Bonds other than in compliance with the Listing Manual.
- 3.1.9 The Conversion Price of S\$0.35 for each Conversion Share represents a premium of approximately 284.6% to the volume weighted average price of S\$0.091 for trades done on the Shares on the SGX-ST for the full market day on 25 November 2016 (being the market day on which the Convertible Bond Agreement was signed).
- 3.1.10 There are currently 50,500,000 Shares in the issued and paid up share capital of the Company. Pursuant to the Proposed CB Issuance, up to 7,260,000 Conversion Shares may be issued in respect of both the principal amount and the full interest repayable under the Convertible Bonds.
- 3.1.11 Pursuant to a convertible bond agreement dated 5 March 2015 between the Company and Alternus, as supplemented by a supplemental agreement dated 16 March 2015, the Company issued the Alternus Convertible Bonds for an aggregate issue size and issue price of S\$2,660,000. Pursuant to the terms of the abovementioned convertible bond agreement with Alternus and the share consolidation exercise of the Company on 23 February 2016, the conversion price of the Alternus Convertible Bonds has been adjusted to S\$1.12 per Alternus Conversion Share. If fully converted the Alternus Convertible Bonds would be converted into 2,375,000 Alternus Conversion Shares. On 27 February 2017, the Company has agreed with Alternus for the repayment date of the Alternus Convertible Bonds to be extended by a period of sixty days, from 5 March 2017 to 4 May 2017, and the applicable interest rate in respect of such extended period to be increased from 7.0% per annum to 9.0% per annum. More details of the terms of the Alternus Convertible Bonds are set out in Appendix A.

3.1.12 To date, none of the Alternus Convertible Bonds have been converted into Alternus Conversion Shares. If converted, the Alternus Convertible Bonds would convert at the conversion price of S\$1.12 into a total of 2,375,000 Alternus Conversion Shares, which would represent 4.70% of the existing issued and paid-up share capital of the Company as at the Latest Practicable Date and 4.49% of the enlarged issued and paid-up share capital of the Company after the issue of the Alternus Conversion Shares. As the current trading price of the Company's shares is S\$0.183 per Share, the conversion of the Alternus Convertible Bonds appears to be commercially disadvantageous for Alternus.

3.1.13 Alternus is wholly-owned by a Mr. Lam Cho Ying Terence Joe, a businessman in Hong Kong who is not related to Mr. Dai or his associates.

3.1.14 When completed, on the assumption that:

- (i) the Alternus Convertible Bonds have been fully converted into the Alternus Conversion Shares; and
 - (ii) the Placement Shares have been fully issued;
- then
- (a) the issuance of the Conversion Shares (in respect of both the principal amount and the full interest repayable) will increase the issued and paid up share capital of the Company from 50,500,000 Shares to 95,135,000 Shares;
 - (b) the Conversion Shares (in respect of both the principal amount and the full interest repayable) will represent approximately 8.262% of the existing issued and paid-up share capital of the Company as at the Latest Practicable Date; and
 - (c) the Conversion Shares (in respect of both the principal amount and the full interest repayable) will represent approximately 7.631% of the enlarged issued and paid-up share capital of the Company after the issue of the Conversion Shares.

3.1.15 When completed, on the assumption that:

- (i) none of the outstanding Alternus Convertible Bonds have been converted into Alternus Conversion Shares; and
 - (ii) none of the Placement Shares have been issued,
- then:
- (a) the issuance of the Conversion Shares (in respect of both the principal amount and the full interest repayable) will increase the issued and paid up share capital of the Company from 50,500,000 Shares to 57,760,000 Shares;
 - (b) the Conversion Shares (in respect of both the principal amount and the full interest repayable) will represent approximately 14.376% of the existing issued and paid-up share capital of the Company as at the Latest Practicable Date; and
 - (c) the Conversion Shares (in respect of both the principal amount and the full interest repayable) will represent approximately 12.569% of the enlarged issued and paid-up share capital of the Company after the issue of the Conversion Shares.

3.1.16 The issuance of the Conversion Shares to Mr. Dai Ji Zhou will not result in a transfer of controlling interest. The issuance of the Convertible Bonds and/or Conversion Shares to Mr. Dai Ji Zhou would not result in any adjustments to the Alternus Convertible Bonds.

3.1.17 The Conversion Shares when allotted and issued and fully paid will rank *pari passu* in all respects with the existing Shares.

- 3.1.18 The Proposed CB Issuance is being made in reliance on the exemption provided under Section 272B of the SFA. As such, no prospectus or offer information statement will be issued by the Company in connection therewith.
- 3.1.19 The bondholder(s) of the Convertible Bonds do not have any rights to appoint directors to the Board of Directors of the Company and will not be appointing any directors to the Board of Directors of the Company.
- 3.1.20 The terms of the Proposed CB Issuance does not contravene any laws and regulations governing the Company and the Bye-laws of the Company.
- 3.1.21 Mr. Dai Ji Zhou does not fall within the persons or groups of persons disallowed by the SGX-ST as set out under Rule 812 of the Listing Manual or who are interested persons under Chapter 9 of the Listing Manual.
- 3.1.22 The completion of the Proposed CB Issuance is not conditional on the completion of the Proposed Share Placement and *vice versa*.

3.2 **Information on the Proposed Share Placement**

- 3.2.1 On 7 December 2016, the Company had entered into Placement Agreements, whereby the Placees have agreed to subscribe for the following respective amounts of Placement Shares (totalling 35,000,000 new Placement Shares) at the issue price of S\$0.11¹ per Placement Share, subject to and upon the terms of the Placement Agreements:

Name of Placee	Number of Placement Shares	Details on how the Placee was identified	Commission Payable	Background and rationale for the Placee's subscription of the Placement Shares
Hu Zhen 胡臻	12,000,000	Mr. Hu was introduced to the Company by Mr. Chong Tin Yam, Alex, the current CEO & Executive Director of the Company. Mr. Hu and Mr. Chong Tin Yam, Alex met at a business event several years ago.	No commission was payable in respect of the referrals	Mr. Hu is a citizen of China. Mr. Hu is an entrepreneur and a general manager running several metal factories in the Jiangsu Province. He has also been very active in making private investments in the property as well as stock market in China, Hong Kong and selected overseas markets in the past 16 years. The Company understands that Mr. Hu has not previously made any investments in Singapore. Mr. Hu has not purchased any shares of the Company prior to the signing of his Placement Agreement and currently holds no shares in the Company. Mr. Hu is investing in the Company for investment purposes.

¹ Based on the exchange rate between US\$ and S\$ of US\$1.00 to S\$1.37 as at Latest Practicable Date, the issue price of S\$0.11 is equivalent to the par value of US\$0.08 per Share. Where applicable, figures and percentages are rounded to two decimal places.

Name of Placee	Number of Placement Shares	Details on how the Placee was identified	Commission Payable	Background and rationale for the Placee's subscription of the Placement Shares
Li Zheng 李峥	9,000,000	Mr. Li was introduced to the Company by Mr. Yuan Limin, a past Non-Executive Director and a current major shareholder of the Company. Mr. Li and Mr. Yuan Limin met at a business event more than 20 years ago.	No commission was payable in respect of the referrals	Mr. Li is a citizen of China. Mr. Li used to run a sizable family business principally engaged in leisure and entertainment business in Northern China, but has withdrawn from this position and is currently a senior trust manager. He has also been very active in making private investments in the stock market in China, Hong Kong and selected overseas markets in the past 12 years. The Company understands that Mr. Li has not previously made any investments in Singapore. Mr. Li has not purchased any shares of the Company prior to the signing of his Placement Agreement and currently holds no shares in the Company. Mr. Li is investing in the Company for investment purposes.
Ng Wah Pang 吴华鹏	7,000,000	Mr. Ng was introduced to the Company by Mr. Wang Huai Dong, the current Non-Executive Chairman of the Company. Mr. Ng and Mr. Wang met while they were both studying in Japan many years ago.	No commission was payable in respect of the referrals	Mr. Ng is a citizen of Hong Kong. Mr. Ng has been running a securities company, "China National Resources Development Limited" (中国资源开发有限公司), with several business partners in Huizhou, Guangdong for almost 18 years. He has been very knowledgeable as well as experienced in making private investments in the stock and futures market in China, Hong Kong and selected overseas markets in the past 18 years. The Company understands that Mr. Ng has not previously made any investments in Singapore. Mr. Ng has not purchased any shares of the Company prior to the signing of his Placement Agreement and currently holds no shares in the Company. Mr. Ng is investing in the Company for investment purposes.

Name of Placee	Number of Placement Shares	Details on how the Placee was identified	Commission Payable	Background and rationale for the Placee's subscription of the Placement Shares
Dai Ju Yun 戴菊云	7,000,000	Ms. Dai was introduced to the Company by Mr. Yuan Limin, a past non-executive Director and a current major shareholder of the Company. Mr. Yuan is a personal friend of Ms. Dai's husband and is neither a business partner nor relative of Ms. Dai.	No commission was payable in respect of the referrals	Ms. Dai is a citizen of Hong Kong. Ms. Dai has been working for a PRC-based investment company as a senior financial analyst for more than 15 years. She has also been active in making private investments in the stock market in China, Hong Kong and selected overseas markets in the past 10 years. The Company understands that Ms. Dai has not previously made any investments in Singapore. Ms. Dai has not purchased any shares of the Company prior to the signing of her Placement Agreement and currently holds no shares in the Company. Ms. Dai is investing in the Company for investment purposes. Ms. Dai and Mr. Dai Ji Zhou are not related to each other or each other's associates.

As no commission is payable in respect of the referrals, there will therefore be no commission shared with any placee. The issue price of S\$0.11 shall be payable in SGD, US\$ or such other currency to ensure that the issue price shall not fall below the par value of US\$0.08 per Share.

- 3.2.2 The issue price of S\$0.11 for each Placement Share (which shall be payable in SGD, US\$ or such other currency to ensure that the issue price shall not fall below the par value of US\$0.08 per Share) represents a premium of approximately 37.5% to the volume weighted average price of S\$0.08 for trades done on the Shares on the SGX-ST for the full market day on 7 December 2016 (being the market day on which the Placement Agreements were signed).
- 3.2.3 Each of the Placees and their associates has no connection (including business relationships) with the Company, its Directors and substantial shareholders. Under the terms of the Placement Agreements, each of the Placees have represented, warranted and undertaken to and for the benefit of the Company, *inter alia*, that it is not acting in concert with each other, Mr. Dai Ji Zhou or any other investor or shareholder of the Company in relation to the Placement Shares to be issued thereunder. The Placees will not be holding any of the Placement Shares on trust as a nominee for any entity or person.
- 3.2.4 There are no share borrowing arrangements to facilitate the Proposed Share Placement.
- 3.2.5 The Placement Shares will collectively represent approximately 69.307% of the existing issued and paid-up share capital of the Company as at the Latest Practicable Date.
- 3.2.6 When completed, on the assumption that:
- (i) the outstanding Alternus Convertible Bonds have been fully converted into the Alternus Conversion Shares; and
 - (ii) the Convertible Bonds have been fully issued and fully converted into the Conversion Shares,

then:

- (a) the Proposed Share Placement will increase the issued and paid up share capital of the Company to 95,135,000 Shares; and
- (b) the Placement Shares will collectively represent approximately 36.790% of the enlarged issued and paid-up share capital of the Company after the issue of the Placement Shares.

3.2.7 When completed, on the assumption that:

- (i) none of the outstanding Alternus Convertible Bonds have been converted into Alternus Conversion Shares; and
- (ii) none of the Convertible Bonds have been issued and converted into the Conversion Shares,

then:

- (a) the Proposed Share Placement will increase the issued and paid up share capital of the Company to 85,500,000 Shares; and
- (b) the Placement Shares will collectively represent approximately 40.936% of the enlarged issued and paid-up share capital of the Company after the issue of the Placement Shares.

3.2.8 The issuance of the Placement Shares to the Placees will not result in a transfer of controlling interest. The Proposed Share Placement and issuance of the Placement Shares to the Placees will not result in any adjustments to any of the Alternus Convertible Bonds and/or the Convertible Bonds (when issued).

3.2.9 The Placement Shares when issued and fully paid will rank *pari passu* in all respects with the existing Shares.

3.2.10 There will not be any change in control arising from the Proposed Share Placement as Yong Tai Investment Company Limited and Yuan Limin remains as the single largest shareholder in the Company holding 14,765,797 Shares or 17.27% of the enlarged issued and paid-up share capital of the Company (as set out in the table at Section 7.2.1 below) and none of the new shareholders or their associates are acting in concert. None of the Placees have any rights to appoint directors to the Board of Directors of the Company and will not be appointing any directors to the Board of Directors of the Company.

3.2.11 The Proposed Share Placement is being made in reliance on the exemption provided under Section 272B of the SFA. As such, no prospectus or offer information statement will be issued by the Company in connection therewith.

3.2.12 The terms of the Proposed Share Placement does not contravene any laws and regulations governing the Company and/or the Bye-laws of the Company.

3.2.13 None of the Placees fall within the persons or groups of persons disallowed by the SGX-ST as set out under Rule 812 of the Listing Manual or are interested persons under Chapter 9 of the SGX-ST Listing Manual.

3.2.14 The completion of the Proposed Share Placement is not conditional on the completion of the Proposed CB Issuance and *vice versa*. Each of the Placement Agreements are also not inter-conditional.

4. CONDITIONS PRECEDENT

4.1 Proposed CB Issuance

4.1.1 The Proposed CB Issuance is conditional upon, *inter alia*, the satisfaction of each of the following conditions precedent:

- (a) approval in-principle for the listing and quotation of the Conversion Shares on the SGX-ST being obtained from the SGX-ST and, where such approval is subject to conditions, such conditions being acceptable to the Company and, to the extent that any conditions for the listing and quotation of the Conversion Shares on the SGX-ST are required to be fulfilled on or before the Issuance Completion Date, they are so fulfilled;
- (b) the approval of SGX-ST (if necessary) being obtained in respect of the transactions contemplated by the Convertible Bond Agreement;
- (c) each of the representations and warranties of Mr. Dai Ji Zhou set out in Clause 5 of the Convertible Bond Agreement being true in on and as of the Issuance Completion Date;
- (d) each of the covenants required to be performed or complied with by Mr. Dai Ji Zhou on or prior to the Issuance Completion Date has been performed and complied with;
- (e) the approval of the Board and shareholders of the Company (where necessary) having been obtained in respect of the transactions contemplated by the Convertible Bond Agreement including but not limited to the issue and allotment of the ordinary shares in connection with the Convertible Bonds, and the same not having been withdrawn or revoked and if such consents or approvals are obtained subject to any conditions, such conditions being acceptable to the parties; and
- (f) there not having been any event or discovery of any fact or circumstance which would affect, render untrue, incorrect or inaccurate or give rise to a material breach in any respect of any of the representations, warranties, agreements or undertakings on the part of Mr. Dai Ji Zhou contained or referred to in the Convertible Bond Agreement deemed to be repeated on each day hereafter, down to the date of the Issuance Completion Date in all respects with reference to the facts and circumstances existing on each such day.

4.1.2 The Company may, and upon such terms it thinks fit, waive compliance with any and/or all of the above conditions and any such condition which is so waived, subject to any further conditions that may be imposed by the Company, shall be deemed to have been satisfied, provided always that any such waiver as aforesaid shall be without prejudice to its right to elect to treat any further or other breach, failure or event as releasing and discharging it from its obligations under the Convertible Bond Agreement.

4.1.3 Mr. Dai Ji Zhou shall use his best endeavours to fulfil the conditions precedent set out above as soon as reasonably practicable and shall immediately notify the Company in writing and provide evidence of the fulfilment of such condition as the Company may reasonably require.

4.1.4 If any of the conditions set forth above is not satisfied on or before 30 June 2017 (or such other later date as the parties may agree) after the date of the Convertible Bond Agreement, the Convertible Bond Agreement shall *ipso facto* cease and determine thereafter, without prejudice to any rights which the Company may have against Mr. Dai Ji Zhou with respect to his failure to fulfill any of the terms of the Convertible Bond Agreement prior to termination.

4.2 Proposed Share Placement

4.2.1 The Proposed Share Placement is conditional upon, *inter alia*, the satisfaction of each of the following conditions precedent under each of the Placement Agreements:

- (a) approval in-principle for the listing and quotation of the Placement Shares on the SGX-ST being obtained from the SGX-ST and, where such approval is subject to conditions, such conditions being acceptable to the Company and, to the extent that any conditions for the listing and quotation of the Placement Shares on the SGX-ST are required to be fulfilled on or before the completion date of the Placement Agreement(s), they are so fulfilled;

- (b) the approval of the Directors and shareholders of the Company (where necessary) being obtained in respect of the transactions contemplated by the Placement Agreement(s) including but not limited to the issue and allotment of the Placement Shares, and the same not having been withdrawn or revoked and if such consents or approvals are obtained subject to any conditions, such conditions being acceptable to the parties;
- (c) the approval of SGX-ST (if necessary) being obtained in respect of the transactions contemplated by the Placement Agreement(s);
- (d) there not having been any event or discovery of any fact or circumstance which would affect, render untrue, incorrect or inaccurate or give rise to a material breach in any respect of any of the representations, warranties, agreements or undertakings on the part of the Placee(s) contained or referred to in the Placement Agreement(s) deemed to be repeated on each day thereafter, down to the date of completion of the Placement Agreement(s) in all respects with reference to the facts and circumstances existing on each such day; and
- (e) the subscription, issue and allotment, and offering (if any) of the Placement Shares being in compliance with the SFA in connection with offers of securities and not being prohibited by any statute, order, rule or regulation promulgated by any legislative, executive or regulatory body or authority of Singapore, Bermuda or elsewhere which is applicable to the Company and/or the Placee(s).

4.2.2 The Company may, and upon such terms it thinks fit, waive compliance with any and/or all of the above conditions and any such condition which is so waived, subject to any further conditions that may be imposed by the Company, shall be deemed to have been satisfied, provided always that any such waiver as aforesaid shall be without prejudice to its right to elect to treat any further or other breach, failure or event as releasing and discharging it from its obligations under the relevant Placement Agreement.

4.2.3 If any of the conditions set forth above is not satisfied and/or waived (as the case may be) on or before 30 June 2017 (or such other later date as the parties may agree) after the date of the Placement Agreement(s), such Placement Agreement(s) shall *ipso facto* cease and determine thereafter, without prejudice to any rights which the Company may have against each of the Placees with respect to his failure to fulfill any of the terms of the relevant Placement Agreement(s) prior to termination.

5. RATIONALE

5.1 Rationale for and Proceeds from the Proposed CB Issuance

5.1.1 The Company wishes to undertake the Proposed CB Issuance to raise working capital for the Company.

5.1.2 The estimated net proceeds from the Proposed CB Issuance, after deducting estimated expenses pertaining to the Proposed CB Issuance of S\$80,000, will be S\$2,020,000. The net proceeds will be fully used for working capital purposes. The estimated expenses of S\$80,000 consist of: (i) approximately S\$50,000 to be paid for Singapore and Bermuda legal fees, company secretarial service fees and SGX additional listing fees; and (ii) approximately S\$30,000 for expenses involved in the holding of the SGM to approve the Proposed CB Issuance.

5.1.3 The Company will make periodic announcements on the utilisation of the net proceeds from the Proposed CB Issuance as and when the funds from the Proposed CB Issuance are materially disbursed and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds in the Company's annual report. Where there is any material deviation from the stated use of proceeds, the Company will announce the reasons for such deviation.

5.2 Rationale for and Proceeds from the Proposed Share Placement

- 5.2.1 The Company wishes to undertake the Proposed Share Placement to raise working capital for the Company.
- 5.2.2 The estimated net proceeds from the Proposed Share Placement, after deducting estimated expenses pertaining to the Proposed Share Placement of S\$100,000, will be S\$3,750,000. The net proceeds will be fully used for working capital purposes. The estimated expenses of S\$100,000 consist of: (i) approximately S\$60,000 to be paid for Singapore and Bermuda legal fees, company secretarial service fees and SGX additional listing fees; and (ii) approximately S\$40,000 for expenses involved in the holding of the SGM to approve the Proposed Share Placement.
- 5.2.3 The Company will make periodic announcements on the utilisation of the net proceeds from the Proposed Share Placement as and when the funds from the Proposed Share Placement are materially disbursed and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the Company's annual report. Where there is any material deviation from the stated use of proceeds, the Company will announce the reasons for such deviation.

5.3 Additional Funding Required

- 5.3.1 As mentioned above, the difficulties that the Company is currently faced with were unforeseeable at the time that the Company had made its investment decisions. Notwithstanding the adversity that the Materials Business has brought to the Company and the Group, the Company has strived to overcome the odds and has been relentlessly exploring avenues for the resolution of the matter, by continually holding negotiations with the SME Bondholders, working to ensure as far as possible that Xuzhou Zhongwei continues its normal business operations through Mr. Huo Weisheng and the local representative(s) designated by the SME Bondholders. The Company has also attempted to diversify its cash flow through the development of alternative businesses in accordance with the rules of the Listing Manual, such as its business in the media and entertainment industry in the Greater China region through the AE Subsidiaries.
- 5.3.2 As mentioned in Section 2.6 above, although the Company's has undertaken fund raising exercises in the past 2 years, the Company needs to raise more funds mainly for the following reasons, in tandem with the abovementioned efforts to diversify its sources of operating income and to seek a workable resolution to the difficulties in relation to the Materials Business:
- (a) The Company needs to repay the Alternus Convertible Bonds and the Prime 10% Coupon Bonds of HK\$10 million by the respective extended repayment dates thereof in early May 2017. On the assumption that the Company is unable to convince any of the bondholders to extend the repayment dates of the Alternus Convertible Bonds or the Prime 10% Coupon Bonds, the total of the respective principal amounts of S\$2.66 million (of the Alternus Convertible Bonds) and the HK\$10 million (of the Prime 10% Coupon Bonds) and the outstanding accrued interests thereof will have to be paid out of the proceeds of the Proposed CB Issuance and Proposed Share Placement. As mentioned in Section 2.6.6 above, the Company has provided the Placees and Mr. Dai Ji Zhou with full and frank details of such situation, and they have expressed confidence in their investment and Management's stewardship of the Company.
 - (b) The Company needs funds for its normal and reasonable minimum operational costs (which also includes but is not limited to the funds required to raise financing and for compliance).
 - (c) Consistent with the Company's efforts to diversify its lines of business, the Company has identified good opportunities in the media and entertainment business in the Greater China region which requires some funding. The Company wishes to clarify that such opportunities do not involve any form of mergers or acquisitions.

5.3.3 The Company wishes to emphasise that it takes a long-term view to the conduct and continuity of its business and its fund-raising activities, and will prioritise the measures that are most sustainable and best serve the interests of Shareholders while taking into account the interests of creditors and ensuring compliance with appropriate legislation, regulations and best practices. In this regard, the primary long-term focus of the Company remains on the resolution of the issues in respect of the Materials Business and on the development of its business in areas of promising growth and opportunity. The measures to fulfil its debt obligations, including the Proposed CB Issuance and Proposed Share Placement, are intended to meet the immediate needs of the Company (i.e. repayment of debts, refinancing and the raising of working capital) while the Company works towards its long-term investment and developmental goals.

5.3.4 For further details, please refer to Section 2.6 above.

6. FINANCIAL EFFECTS

6.1 Financial Effects of the Proposed CB Issuance

6.1.1 For illustrative purposes only, the table below sets out the financial effects of the Proposed CB Issuance based on the following bases and assumptions:

- (a) The audited consolidated financial statements of the Company for the 18-month period ended 30 June 2016;
- (b) The financial impact on the consolidated NTA per Share of the Company is computed based on the assumption that the Proposed CB Issuance was completed on 30 June 2016 and in relation to the Company's consolidated EPS, computed based on the assumption that the Proposed CB Issuance was completed on 1 January 2015;
- (c) The Placement Shares have not been issued; and
- (d) None of the outstanding Alternus Convertible Bonds are converted into Alternus Conversion Shares.

	Before the Proposed CB Issuance	After the Proposed CB Issuance	After the issue and conversion of the Convertible Bonds
Share Capital			
- Issued and paid up share capital (US\$)	4,040,000	4,040,000	4,520,000
- Number of shares	50,500,000	50,500,000	56,500,000
NTA (RMB'000)	27,802	27,802	37,680
NTA per Share (RMB cents)	55.05	55.05	66.69
EPS / (Loss PS) (RMB cents) ⁽¹⁾	(61.71)	(61.71)	(54.59)
Earnings / (Loss) attributable to equity holders of the Company (RMB'000)	(28,393)	(28,393)	(28,393)
Weighted average number of shares used to calculate diluted earnings	46,012,400	46,012,400	52,012,400

Note: ⁽¹⁾ EPS is calculated by dividing the Company's consolidated net earnings attributable to equity holders of the Company by the weighted average number of ordinary shares.

6.1.2 The financial effects of the Proposed CB Issuance on the Company and the Group are for illustrative purposes only and are, therefore, not indicative of the actual financial performance or position of the Company and the Group after the completion of the Proposed CB Issuance.

6.2 Financial Effects of the Proposed Share Placement

6.2.1 For illustrative purposes only, the table below sets out the financial effects of the Proposed Share Placement based on the following bases and assumptions:

- (a) The audited consolidated financial statements of the Company for the 18-month period ended 30 June 2016;
- (b) The financial impact on the consolidated NTA per Share of the Company is computed based on the assumption that the Proposed Share Placement was completed on 30 June 2016 and in relation to the Company's consolidated EPS, computed based on the assumption that the Proposed Share Placement was completed on 1 January 2015;
- (c) The Convertible Bonds have not been fully issued and paid up; and
- (d) None of the outstanding Alternus Convertible Bonds and the Convertible Bonds are converted into Alternus Conversion Shares and Conversion Shares respectively.

	Before the Proposed Share Placement	After the Proposed Share Placement
Share Capital		
- Issued and paid up share capital (US\$)	4,040,000	6,840,000
- Number of shares	50,500,000	85,500,000
NTA (RMB'000)	27,802	46,140
NTA per Share (RMB cents)	55.05	53.96
EPS / (Loss PS) (RMB cents) ⁽¹⁾	(61.71)	(35.05)
Earnings / (Loss) attributable to equity holders of the Company (RMB'000)	(28,393)	(28,393)
Weighted average number of shares used to calculate diluted earnings	46,012,400	81,012,400

Note: ⁽¹⁾ EPS is calculated by dividing the Company's consolidated net earnings attributable to equity holders of the Company by the weighted average number of ordinary shares.

6.2.2 The financial effects of the Proposed Share Placement on the Company and the Group are for illustrative purposes only and are, therefore, not indicative of the actual financial performance or position of the Company and the Group after the completion of the Proposed Share Placement.

7. CHANGES IN SHAREHOLDING STRUCTURE

7.1 Changes in connection with the Proposed CB Issuance

- 7.1.1 Based on the issued share capital of the Company as at the Latest Practicable Date, the following table sets out the impact on the percentage shareholding of existing Shareholders following completion of the Proposed CB Issuance (on the assumption that (i) all of the Convertible Bonds are issued and converted into Conversion Shares, (ii) none of the outstanding Alternus Convertible Bonds are converted into Alternus Conversion Shares and (iii) no Placement Shares are issued):

	As at the Latest Practicable Date						Assuming the Convertible Bonds are fully converted into Shares at the initial Conversion Price and no Placement Shares are Issued					
	Direct Interest		Deemed Interest		Total Interest		Direct Interest		Deemed Interest		Total Interest	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Substantial Shareholders												
Yong Tai Investment Company Limited	14,765,797	29.24	–	–	14,765,797	29.24	14,765,797	25.56	–	–	14,765,797	25.56
Yuan Limin (Note 1)	–	–	14,765,797	29.24	14,765,797	29.24	–	–	14,765,797	25.56	14,765,797	25.56
Li Yu Huan	6,274,835	12.43	–	–	6,274,835	12.43	6,274,835	10.86	–	–	6,274,835	10.86
Link Profits Limited	5,328,571	10.55	–	–	5,328,571	10.55	5,328,571	9.23	–	–	5,328,571	9.23
Wang Chunzhi (Note 2)	–	–	5,328,571	10.55	5,328,571	10.55	–	–	5,328,571	9.23	5,328,571	9.23
Asia Brand Capital Pte. Ltd. (Note 3)	–	–	3,675,030	7.28	3,675,030	7.28	–	–	3,675,030	6.36	3,675,030	6.36
Liu Yanlong (Note 4)	–	–	3,675,030	7.28	3,675,030	7.28	–	–	3,675,030	6.36	3,675,030	6.36
Dai Ji Zhou	–	–	–	–	–	–	7,260,000	12.57	–	–	7,260,000	12.57
Public Shareholders												
Others	20,455,767	40.50	–	–	20,455,767	40.50	20,455,767	35.42	–	–	20,455,767	35.42
Total	–	–	–	–	50,500,000	100	–	–	–	–	57,760,000	100
Notes:-												
(1) Mr. Yuan Limin is deemed to be interested in 14,765,797 shares in the Company held by Yong Tai Investment Company Limited (“Yong Tai”). Mr. Yuan Limin is the sole shareholder of Yong Tai.												
(2) Ms. Wang Chunzhi is deemed to be interested in 5,328,571 shares in the Company held by Link Profits Limited (“Link Profits”). Ms Wang Chunzhi is the sole shareholder of Link Profits.												
(3) The shares held by Asia Brand Capital Pte. Ltd. (“Asia Brand”) are registered in the name of DBS Vickers Securities Nominees Pte. Ltd.												
(4) Mr. Liu Yanlong is deemed to be interested in 3,675,030 shares in the Company held by Asia Brand. Mr. Liu Yanlong is the sole shareholder of Asia Brand.												

7.2 Changes in connection with the Proposed Share Placement

7.2.1 Based on the issued share capital of the Company as at the Latest Practicable Date, the following table sets out the impact on the percentage shareholding of existing Shareholders following completion of the Proposed Share Placement (on the assumption that (i) none of the Alternus Convertible Bonds have been converted into Alternus Conversion Shares, and (ii) none of the Convertible Bonds have been issued and converted into the Conversion Shares):

	As at the Latest Practicable Date						After the Share Placement (assuming that none of the Alternus Convertible Bonds have been converted into Alternus Conversion Shares, and that none of the Convertible Bonds have been issued and converted into the Conversion Shares)					
	Direct Interest		Deemed Interest		Total Interest		Direct Interest		Deemed Interest		Total Interest	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Substantial Shareholders												
Yong Tai Investment Company Limited	14,765,797	29.24	–	–	14,765,797	29.24	14,765,797	17.27	–	–	14,765,797	17.27
Yuan Limin (Note 1)	–	–	14,765,797	29.24	14,765,797	29.24	–	–	14,765,797	17.27	14,765,797	17.27
Li Yu Huan	6,274,835	12.43	–	–	6,274,835	12.43	6,274,835	7.34	–	–	6,274,835	7.34
Link Profits Limited	5,328,571	10.55	–	–	5,328,571	10.55	5,328,571	6.23	–	–	5,328,571	6.23
Wang Chunzhi (Note 2)	–	–	5,328,571	10.55	5,328,571	10.55	–	–	5,328,571	6.23	5,328,571	6.23
Asia Brand Capital Pte. Ltd. (Note 3)	–	–	3,675,030	7.28	3,675,030	7.28	N/A	N/A	N/A	N/A	N/A	N/A
Liu Yanlong (Note 4)	–	–	3,675,030	7.28	3,675,030	7.28	N/A	N/A	N/A	N/A	N/A	N/A
Placees												
Hu Zhen	–	–	–	–	–	–	12,000,000	14.03	–	–	12,000,000	14.03
Li Zheng	–	–	–	–	–	–	9,000,000	10.53	–	–	9,000,000	10.53
Ng Wah Pang	–	–	–	–	–	–	7,000,000	8.19	–	–	7,000,000	8.19
Dai Ju Yun	–	–	–	–	–	–	7,000,000	8.19	–	–	7,000,000	8.19
Public Shareholders												
Asia Brand Capital Pte. Ltd. (Note 5)	N/A	N/A	N/A	N/A	N/A	N/A	–	–	–	–	–	–
Liu Yanlong (Note 5)	N/A	N/A	N/A	N/A	N/A	N/A	–	–	–	–	–	–
Others	20,455,767	40.50	–	–	20,455,767	40.50	24,130,797	28.22	–	–	24,130,797	28.22
Total Public Shareholders	20,455,767	40.50	–	–	20,455,767	40.50	24,130,797	28.22	–	–	24,130,797	28.22
Total	–	–	–	–	50,500,000	100	–	–	–	–	85,500,000	100
Notes:-												
(1) Mr. Yuan Limin is deemed to be interested in 14,765,797 shares in the Company held by Yong Tai. Mr. Yuan Limin is the sole shareholder of Yong Tai.												
(2) Ms. Wang Chunzhi is deemed to be interested in 5,328,571 shares in the Company held by Link Profits. Ms. Wang Chunzhi is the sole shareholder of Link Profits.												
(3) The shares held by Asia Brand are registered in the name of DBS Vickers Securities Nominees Pte. Ltd.												
(4) Mr. Liu Yanlong is deemed to be interested in 3,675,030 shares in the Company held by Asia Brand. Mr. Liu Yanlong is the sole shareholder of Asia Brand.												
(5) Asia Brand and Mr. Liu Yanlong would become public shareholders after the Proposed Share Placement as their respective interests would decrease to less than 5% following the Proposed Share Placement. Their shares are held directly by DBS Vickers Securities Nominees Pte. Ltd..												

7.3 Changes in connection with the Proposed CB Issuance and the Proposed Share Placement

7.3.1 Based on the issued share capital of the Company as at the Latest Practicable Date, the following table sets out the impact on the percentage shareholding of existing Shareholders following completion of the Proposed CB Issuance (on the assumption that (i) all of the Convertible Bonds are issued and converted into Conversion Shares, and (ii) none of the outstanding Alternus Convertible Bonds are converted into Alternus Conversion Shares):

	As at the Latest Practicable Date						Assuming the Convertible Bonds are fully converted into Shares at the initial Conversion Price and all the Placement Shares are Issued					
	Direct Interest		Deemed Interest		Total Interest		Direct Interest		Deemed Interest		Total Interest	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Substantial Shareholders												
Yong Tai Investment Company Limited	14,765,797	29.24	–	–	14,765,797	29.24	14,765,797	15.92	–	–	14,765,797	15.92
Yuan Limin (Note 1)	–	–	14,765,797	29.24	14,765,797	29.24	–	–	14,765,797	15.92	14,765,797	15.92
Li Yu Huan	6,274,835	12.43	–	–	6,274,835	12.43	6,274,835	6.76	–	–	6,274,835	6.76
Link Profits Limited	5,328,571	10.55	–	–	5,328,571	10.55	5,328,571	5.74	–	–	5,328,571	5.74
Wang Chunzhi (Note 2)	–	–	5,328,571	10.55	5,328,571	10.55	–	–	5,328,571	5.74	5,328,571	5.74
Asia Brand Capital Pte. Ltd. (Note 3)	–	–	3,675,030	7.28	3,675,030	7.28	–	–	3,675,030	3.96	3,675,030	3.96
Liu Yanlong (Note 4)	–	–	3,675,030	7.28	3,675,030	7.28	–	–	3,675,030	3.96	3,675,030	3.96
Dai Ji Zhou (Note 5)	–	–	–	–	–	–	7,260,000	7.83	–	–	7,260,000	7.83
Placees												
Hu Zhen	–	–	–	–	–	–	12,000,000	12.94	–	–	12,000,000	12.94
Li Zheng	–	–	–	–	–	–	9,000,000	9.70	–	–	9,000,000	9.70
Ng Wah Pang	–	–	–	–	–	–	7,000,000	7.55	–	–	7,000,000	7.55
Dai Ju Yun (Note 5)	–	–	–	–	–	–	7,000,000	7.55	–	–	7,000,000	7.55
Public Shareholders												
Asia Brand Capital Pte. Ltd. (Note 6)	N/A	N/A	N/A	N/A	N/A	N/A	–	–	–	–	–	–
Liu Yanlong (Note 6)	N/A	N/A	N/A	N/A	N/A	N/A	–	–	–	–	–	–
Others	20,455,767	40.50	–	–	20,455,767	40.50	24,130,797	26.01	–	–	24,130,797	26.01
Total Public Shareholders	20,455,767	40.50	–	–	20,455,767	40.50	24,130,797	26.01	–	–	24,130,797	26.01
Total	–	–	–	–	50,500,000	100	–	–	–	–	92,760,000	100
Notes:-												
(1) Mr. Yuan Limin is deemed to be interested in 14,765,797 shares in the Company held by Yong Tai. Mr. Yuan Limin is the sole shareholder of Yong Tai.												
(2) Ms. Wang Chunzhi is deemed to be interested in 5,328,571 shares in the Company held by Link Profits. Ms Wang Chunzhi is the sole shareholder of Link Profits.												
(3) The shares held by Asia Brand are registered in the name of DBS Vickers Securities Nominees Pte. Ltd.												
(4) Mr. Liu Yanlong is deemed to be interested in 3,675,030 shares in the Company held by Asia Brand. Mr. Liu Yanlong is the sole shareholder of Asia Brand.												
(5) Mr. Dai Ji Zhou and Ms. Dai Ju Yun are not related to each other.												
(6) Asia Brand and Mr. Liu Yanlong would become public shareholders after the Proposed CB Issuance and Proposed Share Placement as their respective interests would decrease to less than 5% following the Proposed CB Issuance and Proposed Share Placement. Their shares are held directly by DBS Vickers Securities Nominees Pte. Ltd..												

- 7.4 None of Mr. Yuan Limin, Link Profits, Asia Brand, the Placees, Alternus or Mr. Dai Ji Zhou are concert parties.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors or substantial shareholders of the Company (other than in their capacity as director or shareholders of the Company) has any interest, direct or indirect, in either the Proposed CB Issuance or the Proposed Share Placement.

9. DIRECTORS' RECOMMENDATIONS

9.1 Proposed CB Issuance

After having considered the rationale, terms and financial effects of the Proposed CB Issuance, the Directors are of the opinion that the Proposed CB Issuance is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Resolution 1 (proposed as an ordinary resolution) relating to the Proposed CB Issuance as set out in the Notice of SGM.

9.2 Proposed Share Placement

After having considered the rationale, terms and financial effects of the Proposed Share Placement, the Directors are of the opinion that the Proposed Share Placement is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Resolution 2 (proposed as an ordinary resolution) relating to the Proposed Share Placement as set out in the Notice of SGM.

9.3 Conclusion

Shareholders are advised to read this Circular in its entirety, including the rationale for the Proposed CB Issuance and the Proposed Share Placement set out above, and the financial effects of the Proposed CB Issuance and the Proposed Share Placement set out in Sections 6.1 and 6.2 of this Circular respectively. Shareholders who may require advice in the context of his specific investment should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

10. SPECIAL GENERAL MEETING

The SGM, notice of which is set out on pages 49 to 51 of this Circular, will be held at Amara Singapore, 165 Tanjong Pagar Road, Singapore 088539 on 26 May 2017 at 10.30 am for the purposes of considering and, if thought fit, passing, with or without modifications, the resolutions set out in the Notice of SGM relating to the Proposed CB Issuance and the Proposed Share Placement.

11. ACTION TO BE TAKEN BY SHAREHOLDERS

- 11.1 Shareholders who are unable to attend the SGM and who wish to appoint a proxy to attend and vote at the SGM on their behalf should complete, sign and return the Shareholder Proxy Form attached to the Notice of SGM in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Company's Share Transfer Agent, M&C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902 not less than 48 hours before the time fixed for the SGM. The completion and return of the Shareholder Proxy Form by such Shareholder will not prevent him from attending the SGM and voting in person in place of his proxy should he subsequently wish to do so and in such event, his Shareholder Proxy Form shall be deemed to be revoked. Only Shareholders whose names are entered on the Register of Members and who are entitled to attend and vote at a general meeting of the Company will receive a Shareholder Proxy Form with this Circular. A proxy need not be a Shareholder of the Company.

- 11.2 Depositors who wish to attend and vote at the SGM, and whose names are shown in the records of CDP as at a time not earlier than 48 hours prior to the time of the SGM supplied by CDP to the Company, may attend as CDP's proxies. Such Depositors, who are individuals and who wish to attend the SGM in person need not take any further action and may attend and vote at the SGM without the lodgement of any proxy form. Such Depositors who are unable to attend the SGM personally and wish to appoint a nominee to attend and vote on his behalf, and Depositors who are not individuals, will find attached to this Circular a Depositor Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Company's Share Transfer Agent, M&C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902 not less than 48 hours before the time fixed for the SGM. The completion and return of the Depositor Proxy Form by a Depositor who is an individual will not prevent him from attending and voting in person at the SGM as proxy of CDP in place of his nominee if he subsequently wishes to do so.

12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed CB Issuance and the Proposed Share Placement, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company's Share Transfer Agent, M&C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902 during normal business hours on any weekday (public holidays excepted) during normal business hours from the date of this Circular up to and including the date of the SGM:

- (a) the Memorandum and Bye-laws of the Company;
- (b) the Convertible Bond Agreement; and
- (c) the Placement Agreements.

Yours faithfully
for and on behalf of the Board of Directors of
ASIA FASHION HOLDINGS LIMITED

Mr. Chong Tin Yam, Alex
Chief Executive Officer and Executive Director
10 May 2017

APPENDIX A

Terms of the Alternus Convertible Bonds

- Issue Size : S\$2,660,000 in aggregate principal amount of Alternus Convertible Bonds.
- Issue Price : 100% of the principal amount of the Alternus Convertible Bonds.
- Interest : The Alternus Convertible Bonds will bear interest at the rate of 7.0% per annum, payable quarterly in arrears. As announced by the Company on 10 March 2017, the interest rate payable in rest of the extended repayment period of 5 March 2017 to 4 May 2017 is 9.0% per annum.
- Maturity Date : 4 May 2017 (or such other date as may be agreed between the Company and Alternus, pursuant to an extension or otherwise, from time to time).
- Early Redemption at the Option of the Company : The Company may, at any time within the period commencing the seventh (7th) month from the issue date up until the maturity date of the Alternus Convertible Bonds, (i) having served the redemption notice to the bondholder pursuant to the terms of the Alternus Convertible Bonds (the “**Alternus CB Redemption Notice**”) at least ten (10) days in advance and (ii) having not received any conversion notice from the bondholder within the the period of fifteen (15) days after the date of receipt by the bondholder of the Company’s Alternus CB Redemption Notice (the “**Alternus CB Redemption Conversion Period**”), redeem all (and not some only) of the Alternus Convertible Bonds then outstanding at 103% of the principal amount, together with all accrued and unpaid interest that was scheduled to be paid on (but excluding) the redemption date.
- Purchase : The Company and/or any of its related corporations may at any time purchase the Alternus Convertible Bonds from the bondholder at any price. All Alternus Convertible Bonds purchased by or on behalf of the Company or any of its related corporations may be surrendered for cancellation by and, if so surrendered, shall together with all Alternus Convertible Bonds redeemed by the Company, be cancelled forthwith.
- Conversion Price : S\$1.12 for each ordinary share.
- Adjustments to the Conversion Price : No adjustments to the conversion price of the Alternus Convertible Bonds shall be made in respect of any issue of shares and/or convertible securities and/or warrants by the Company, and/or in the event of any rights, bonus or other capitalisation issues by the Company, save as follows:

- a. In the event that a Share Consolidation Exercise occurs, the conversion price of the Alternus Convertible Bonds shall be adjusted in the following manner:

$$\text{New Conversion Price} = \frac{\text{Aggregate number of issued and paid-up Shares immediately before such Share Consolidation Exercise}}{\text{Aggregate number of issued and fully paid-up Shares immediately after such Share Consolidation Exercise}} \times X$$

X = existing conversion price of the Alternus Convertible Bonds

Such adjustments will be effective from the close of the Stock Exchange Business Day immediately preceding the date on which the consolidation becomes effective.

- b. The Company may also, in consultation with the bondholder, effect such other adjustments to the conversion price of the Alternus Convertible Bonds as may be required to comply with mandatory provisions of Singapore law and/or the requirements of the SGX-ST.

Voluntary Conversion

- : The bondholder may convert all or part of the outstanding Alternus Convertible Bonds and any accrued and unpaid interest in respect of each Alternus Convertible Bond into new ordinary shares at the conversion price thereof at any time within the period commencing three (3) months from the issue date up until the maturity date thereof, Provided Always that (i) the bondholder shall not have a conversion right in the event that the Company serves an Alternus CB Redemption Notice and the Alternus CB Redemption Conversion Period has expired; and (ii) the minimum aggregate principal amount of Alternus Convertible Bonds to be converted in any single conversion of Alternus Convertible Bonds shall be S\$177,000.

Mandatory Conversion

- : Upon the occurrence of the volume weighted average price for trades done on the shares of the Company on the SGX-ST remaining at S\$1.60 (the “**Alternus Mandatory VWAP Price**”) and above for a consecutive period of fifteen (15) Stock Exchange Business Days on the SGX-ST falling within the period commencing three (3) months from the issue date up until the maturity date of the Alternus Convertible Bonds, the bondholder shall be required to convert all of the outstanding Alternus Convertible Bonds and any accrued and unpaid interest in respect of each Alternus Convertible Bond (if and where the bondholder waives its right for cash payment of such amount) into new ordinary shares at the conversion price of the Alternus Convertible Bonds.

Provided Always that:

- a. If trading is not available for a full Stock Exchange Business Day, the volume weighted average price for trades done on the shares of the Company on the SGX-ST for that particular Stock Exchange Business Day(s) shall be disregarded for the computation of the consecutive period of fifteen (15) Stock Exchange Business Days, and the consecutive period shall not be treated as being non-consecutive solely due to trading not having been available for such full Stock Exchange Business Day.
- b. In the event that a Share Consolidation Exercise occurs, the Alternus Mandatory VWAP Price shall be adjusted as follows:

$$\text{New Alternus Mandatory VWAP Price} = \frac{\text{Aggregate number of issued and paid-up Shares immediately before such Share Consolidation Exercise}}{\text{Aggregate number of issued and fully paid-up Shares immediately after such Share Consolidation Exercise}} \times A$$

A = existing Alternus Mandatory VWAP Price

Such adjustments will be effective from the close of Stock Exchange Business Day immediately preceding the date on which the consolidation becomes effective.

- Status of the Convertible Bonds : The Alternus Convertible Bonds constitute unsecured, direct, subordinated and unconditional obligations of the Company which shall at all times rank *pari passu* and without any preference or priority among themselves.
- Status of the Conversion Shares : The Alternus Convertible Bonds will be converted into ordinary shares in the capital of the Company, which have the rights set out in the Bye-laws. The new ordinary shares shall rank *pari passu* with ordinary shares in issue on the conversion date and shall carry the right to receive all dividends and other distributions declared after the conversion date.
- Governing Law : Singapore law.

APPENDIX B

ASIA FASHION HOLDINGS LIMITED

(Company Registration No. 41195)
(Incorporated in Bermuda)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE USE OF PROCEEDS FROM THE COMPANY'S FUND RAISING EXERCISES IN 2015/2016

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 22 November 2016 on the Annual Report 2016 (“**AR 2016**”). 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 query (“**SGX Query**”) raised by the Singapore Exchange Securities Trading Limited (the “**SGX**”) as follows:

SGX Query 1

Please disclose use of proceeds from the Company's fund raising exercise(s) in 2015/2016.

Company's Response to SGX Query 1

In 2015 and 2016, the Company undertook the following fund raising exercises:

Fund Raising Exercises under Chapter 8 of the Listing Manual

1. Placement of an aggregate of 100,000,000 new ordinary shares in the capital of the Company at \$0.029 per placement share (the “**February 2015 Placement**”) pursuant to the placement agreements entered into between the Company and each of Feng Jia Cheng, Wang Hui, Cai Yi and Guo Wen Qi dated 15 August 2013;
2. Issuance of convertible bonds to Alternus Capital Holdings Limited on 31 March 2015 of an aggregate principal amount of S\$2,660,000 (the “**Alternus Convertible Bonds**”);
3. Placement of an aggregate of 58,800,000 new ordinary shares in the capital of the Company at S\$0.06 per placement share (the “**March 2015 Placement**”) pursuant to (1) the placement agreements entered into between the Company and each of Forest Education Foundation Limited, Grand Powerful Group Limited, Tsang Yuen Wai Samuel and Wong Yu Chiu Ben dated 25 March 2015 and (2) the placement agent agreement entered into between the Company and UOB Kay Hian Private Limited dated 25 March 2015;
4. Placement of an aggregate of 100,397,362 new ordinary shares in the capital of the Company at S\$0.06 per placement share (the “**September 2015 Placement**”) pursuant to a placement agreement dated 30 September 2015 entered into with Ms Li Yu Huan, which was satisfied in full by way of the capitalisation of S\$6,023,841.72 of the amount outstanding (including the principal amount and all accrued and unpaid interest) under the bonds of the Company previously subscribed by Ms Li Yu Huan further to the Bond Subscription Agreement dated 9 June 2014 and entered into between Ms Li Yu Huan and the Company.
5. Proposed issuance of 7.0% convertible bonds to Dai Ji Zhou on 25 November 2016 of an aggregate principal amount of S\$2,100,000 (the “**November 2016 Convertible Bonds**”)

Other Fund Raising Exercises

6. Issuance of 10% bond to Prime Pacific Investments Limited on 4 March 2015 of a principal amount of HK\$10 million (the “**Prime Pacific Bond**”);

The breakdown of the use of proceeds from each of the above fund raising exercises is as follows: -

1. February 2015 Placement

As announced by the Company on 19 March 2015 and 27 March 2015, the breakdown of the use of proceeds are as follows:

	Amounts (S\$ '000)
NET PROCEEDS RAISED	2,750
APPLICATION OF PROCEEDS	
Salaries and directors' remuneration	285
Corporate and legal fees	438
Listing expenses	65
Office rental and deposit	725
Pre-acquisition due diligence and audit fees and related expenses	212
Special review fee and related expenses – PWC	615
Annual audit fee and related expenses	271
Other miscellaneous expenses	139
Total	<u>2,750</u>

2. Alternus Convertible Bonds

As announced by the Company on 7 July 2015 and 2 September 2016, the breakdown of the use of proceeds are as follows:

	Amounts (S\$ '000)
NET PROCEEDS RAISED	2,527
APPLICATION OF PROCEEDS	
Settlement of FY2014 accrued operating expenses	105.3
Settlement of directors' remuneration and staff salary	208.6
Settlement of audit expenses	250
Listing Expenses	142
Rental Expenses	112
Settlement of other professional expenses	83.2
Settlement of other operating expenses	156
Repayment of interest to creditors	46.5
Settlement of FY2015 staff salaries and directors' remuneration	395
Settlement of FY2015 auditor's fees and related expenses	72
Settlement of remaining interest on 7% Coupon Bond to Ms. Li Yu Huan	58
Settlement of interest on 10% coupon bond to Prime Pacific	171
Settlement of FY2015 professional and other operating expenses	152.2
Settlement of corporate and legal fees	160
Settlement of FY2015 Listing Fees	80
Settlement of FY2015 office rental	181.2
Settlement of pre-acquisition due diligence, legal valuation and other related expenses	154
Total	<u>2,527</u>

3. March 2015 Placement

As announced by the Company on 7 July 2015 and 2 September 2016, the breakdown of the use of proceeds are as follows:

	Amounts (S\$ '000)
NET PROCEEDS RAISED	3,200
APPLICATION OF PROCEEDS	
Repayment of interest to creditors	700
Investment Loan to Rich Circles Enterprise Limited ("Rich Circles") in relation to the increase in the Company's shareholding in Rich Circles to 54.46% ¹	2,400
Settlement of FY2015 staff salaries and directors' remuneration	100
Total	<u>3,200</u>

Note:

- ¹ The Board refers to the Company's announcement dated 27 May 2015. With effect from 27 May 2015, the Company's shareholding in its subsidiary, Rich Circles, increased from 49% to 54.46% or 6,100 shares out of an expanded total number of 11,200 shares. The increase was a result of the subscription of 1,200 new ordinary shares in the capital of Rich Circles, which had a net tangible asset value of approximately US\$10,000, by the Company for a total subscription price of US\$1,200 in cash. The foregoing was pursuant to a fund-raising exercise for the Company to provide Rich Circles a new shareholders' loan of RMB 12,000,000 to fund the operational costs of its subsidiary, Xuzhou Zhongwei New Board Co., Ltd.. The source of funds for the Company to provide for the shareholders' loan came from the Placement Net Proceeds.

4. September 2015 Placement

As announced by the Company on 30 September 2015, the issue price was satisfied in full by way of the capitalisation of S\$6,023,841.72 of the amount outstanding (including the principal amount and all accrued and unpaid interest) under the bonds of the Company previously subscribed by Ms Li Yu Huan further to the Bond Subscription Agreement dated 9 June 2014 and entered into between Ms Li Yu Huan and the Company.

5. November 2016 Convertible Bonds

The November 2016 Convertible Bonds have not yet been issued as they are subject to approval of the SGX as well as the approval of shareholders at general meeting, both of which have not yet been obtained. As announced by the Company on 25 November 2016, the net proceeds will be fully used for working capital purposes.

The Company will make periodic announcements on the utilisation of the net proceeds as and when the funds are materially disbursed and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds. Where there is any material deviation from the stated use of proceeds, the Company will announce the reasons for such deviation.

6. Prime Pacific Bond

Amounts (RMB '000)

NET PROCEEDS RAISED

7,928

APPLICATION OF PROCEEDS

Partial settlement of Ms. Li Yu Huan's
S\$10 million Non-equity linked Bonds

7,928

Total

7,928

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
1 December 2016

ASIA FASHION HOLDINGS LIMITED

(Company Registration No. 41195)
(Incorporated in Bermuda)

NOTICE OF SPECIAL GENERAL MEETING

Unless otherwise defined, all capitalised terms herein shall bear the same meaning as used in the circular dated 10 May 2017 issued by Asia Fashion Holdings Limited (the “Circular”).

NOTICE IS HEREBY GIVEN that a special general meeting (“SGM”) of Asia Fashion Holdings Limited (the “Company”) will be held at Amara Singapore, 165 Tanjong Pagar Road, Singapore 088539 on 26 May 2017 at 10.30 am (Singapore time) for the purpose of considering and, if thought fit, passing with or without any amendments, the following resolutions as ordinary resolutions:

AS ORDINARY RESOLUTION 1 – APPROVAL OF THE PROPOSED CB ISSUANCE

THAT:

- (a) pursuant to Rule 805(1) of the Listing Manual and Bye-law 12 of the Bye-laws, approval be and is hereby given for the Proposed CB Issuance, particulars of which are set out in the Circular;
- (b) the terms of, the Company's entry into and performance of, and the execution and delivery by a Director for and on behalf of the Company of, the Convertible Bond Agreement be and is hereby ratified, confirmed and approved;
- (c) the Directors be and are authorised to create and issue the Convertible Bonds in an aggregate principal amount of S\$2,100,000 to Mr. Dai Ji Zhou pursuant to the Proposed CB Issuance subject to, and in accordance with, the terms of the Convertible Bond Agreement;
- (d) the Directors be and are authorised to allot and issue the Conversion Shares, which shall be credited as fully paid and rank *pari passu* with all respects with the existing Shares upon payment in accordance with the terms of the Convertible Bond Agreement, pursuant to the conversion (if any) of the Convertible Bonds subject to, and in accordance with, the terms of the Convertible Bond Agreement, and such further Conversion Shares as may be required to be allotted and issued on the conversion of any of the Convertible Bonds upon the adjustment of the Conversion Price in accordance with the terms of the Convertible Bond Agreement; and
- (e) any one or more Directors be and is/are hereby authorised to do all such acts and things and approve, execute and deliver all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Proposed CB Issuance and the transactions contemplated thereunder including but not limited to the issuance of the Convertible Bonds and/or the allotment or issue of the Conversion Shares.

For the avoidance of doubt, Shareholders' pre-emptive right under Bye-law 12(2) of the Bye-laws shall not apply to the Company's proposed allotment and issue of the Conversion Shares.

AS ORDINARY RESOLUTION 2 – APPROVAL OF THE PROPOSED SHARE PLACEMENT

THAT:

- (a) pursuant to Rule 805(1) of the Listing Manual and Bye-law 12 of the Bye-laws, approval be and is hereby given for the Proposed Share Placement, particulars of which are set out in the Circular;
- (b) the terms of, the Company's entry into and performance of, and the execution and delivery by a Director for and on behalf of the Company of, the Placement Agreements be and is hereby ratified, confirmed and approved;

- (c) the Directors be and are authorised to allot and issue an aggregate of 35,000,000 new Placement Shares, which shall be credited as fully paid and rank *pari passu* with all respects with the existing Shares upon payment in accordance with the terms of the Placement Agreements, for an issue price of S\$0.11 for each Placement Share (which shall be payable in SGD, US\$ or such other currency to ensure that the issue price shall not fall below the par value of US\$0.08 per Share) to the Placees pursuant to the Proposed Share Placement subject to, and in accordance with, the terms of the Placement Agreements; and
- (d) any one or more Directors be and is/are hereby authorised to do all such acts and things and approve, execute and deliver all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Proposed Share Placement and the transactions contemplated thereunder including but not limited to the allotment or issue of the Placement Shares.

For the avoidance of doubt, Shareholders' pre-emptive right under Bye-law 12(2) of the Bye-laws shall not apply to the Company's proposed allotment and issue of the Placement Shares.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
10 May 2017

IMPORTANT: Please read notes below.

Notes:

1. If a Shareholder who is not a Depositor is unable to attend the SGM and wishes to appoint a proxy/proxies to attend and vote on his behalf, he could complete, sign and return the proxy form despatched to Shareholders who are not Depositors ("**Shareholder Proxy Form**") in accordance with the instructions printed thereon. With the exception of The Central Depository (Pte) Limited ("**CDP**") who may appoint more than two proxies, a Shareholder entitled to attend and vote at the SGM who holds two (2) or more shares is entitled to appoint no more than two proxies to attend and vote on his behalf. A proxy need not be a Shareholder.
2. Where a form of proxy appoints more than one proxy (including the case where such appointment results from a nomination by CDP), the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
3. If a Depositor who is an individual and whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Cap. 289) of Singapore) as at a time not earlier than forty-eight (48) hours before the time appointed for the SGM and is unable to attend the SGM personally and wishes to appoint a proxy/proxies to attend and vote on his behalf, he should complete, sign and deposit the proxy form despatched to Depositors (the "**Depositor Proxy Form**") in accordance with the instructions printed therein.
4. A Depositor who is not an individual can only be represented at the SGM if its nominee(s) is/are appointed as CDP's proxy/proxies. To appoint its nominee/nominees as proxy/proxies of CDP and to enable its nominee/nominees to attend and vote at the SGM, such Depositor should complete, execute and deposit the Depositor Proxy Form in accordance with the instructions therein.
5. A corporation which is a Shareholder may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its corporate representative at the SGM.
6. To be valid, the Shareholder Proxy Form or the Depositor Proxy Form, together with the power of attorney or other authority, if any, under which it is signed on behalf of the appointor, or a certified copy of such power or authority, shall be delivered at the Company's Share Transfer Agent, M&C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902 not less than forty-eight (48) hours before the time appointed for holding the SGM or at any adjournment thereof. Detailed instructions can be found on the Shareholder Proxy Form and Depositor Proxy Form.
7. The completion and return of a Shareholder Proxy Form by a Shareholder who is not a Depositor, or a Depositor Proxy Form by a Depositor who is an individual, shall not preclude him from attending and voting in person at the SGM if he wishes to do so, in place of his proxy/proxies.

Personal Data Privacy

Where a Shareholder of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the SGM and/or any adjournment thereof, such Shareholder of the Company (i) consents to the collection, use and disclosure of the Shareholder's personal data by the Company (or its agents) for the purpose of the processing, administration and analysis by the Company (or its agents) of proxies and representatives appointed for the SGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the SGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Shareholder discloses the personal data of the Shareholder's proxy(ies) and/or representative(s) to the Company (or its agents), the Shareholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Shareholder will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Shareholder's breach of warranty.