



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the Company and its subsidiaries (the “Group”)) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated statement of comprehensive income for the Group

	1Q2018 RMB'000 (Unaudited)	1Q2017 RMB'000 (Unaudited)	3M2018 RMB'000 (Unaudited)	3M2017 RMB'000 (Unaudited)
Continuing operations				
Revenue	7,352	-	7,352	-
Cost of sales	(1,505)	-	(1,505)	-
Gross profit	5,847	-	5,847	-
Other operating income	289	-	289	-
Selling and distribution expenses	(268)	-	(268)	-
Administrative expenses	(4,420)	(1,654)	(4,420)	(1,654)
Finance costs	(182)	(441)	(182)	(441)
	1,266	(2,095)	1,266	(2,095)
Share of profit from associates, net of tax	-	-	-	-
Profit/(Loss) before taxation from continuing operating	1,266	(2,095)	1,266	(2,095)
Income tax expense	(1,144)	-	(1,144)	-
Profit/(Loss) after taxation from continuing operating	122	(2,095)	122	(2,095)
Other comprehensive income	-	-	-	-
Total comprehensive profit/(loss) net of tax	122	(2,095)	122	(2,095)
Total comprehensive profit/(loss), net of tax, attributable to:				
Equity holders of the company	122	(2,095)	122	(2,095)
Non-controlling interest	-	-	-	-
	122	(2,095)	122	(2,095)



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- 1(a)(ii) The following items (with appropriate breakdowns and explanations), if significant, must either be included in the income statement or in the notes to the income statement for the current financial period reported on and the corresponding period of the immediately preceding financial year.

The Group's profit/(loss) before taxation is arrived at after charging/(crediting):

	1Q2018 RMB'000 (Unaudited)	1Q2017 RMB'000 (Unaudited)	3M2018 RMB'000 (Unaudited)	3M2017 RMB'000 (Unaudited)
Interest expenses on:				
- 7% Convertible Bond (S\$2.66M)	-	226	-	226
- 10% Straight Bond (HK\$10M)	-	215	-	215
- 7% Convertible Bond (S\$2.10M)	182	-	182	-
Total Finance Costs	182	441	182	441

Note :

- 1) The 7% Convertible Bond payable to Alternus Capital Holdings Limited in the principal amount of S\$2.66 million has been fully settled on 8 June 2017 and hence no further Bond interest has been accrued thereon in this reporting quarter.
- 2) The 10% Straight Bond payable to Prime Pacific Investment Limited in the principal amount of HK\$10 million has been fully settled on 8 May 2017 and hence no further Bond interest has been accrued thereon in this reporting quarter.



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UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Statements of financial position

	←----- The Group -----→		←----- The Company -----→	
	As at		As at	
	30 September 2017 RMB'000 (Unaudited)	30 June 2017 RMB'000 (Audited)	30 September 2017 RMB'000 (Unaudited)	30 June 2017 RMB'000 (Audited)
Non-current assets				
Property, plant and equipment	7,366	6,515	2,486	2,724
Investments in subsidiaries	-	-	8	8
Intangible asset	20	20	-	-
	<u>7,386</u>	<u>6,535</u>	<u>2,494</u>	<u>2,732</u>
Current assets				
Inventories	391	572	-	-
Other receivables	5,280	29,508	1,134	1,134
Loan to associated company	61,000	61,000	61,000	61,000
Amount due from associates	22	22	-	-
Amount due from subsidiary	-	-	967	5,279
Cash funds	6,003	6,003	-	-
Cash and cash equivalents	108,929	104,838	67	67
	<u>181,625</u>	<u>201,943</u>	<u>63,168</u>	<u>67,480</u>
Total assets	189,011	208,478	65,662	70,212
Current liabilities				
Accruals and other payables	128,151	143,241	5,106	6,203
Amount due to third parties	3,809	8,446	6,809	7,144
Amount due to a former director/ shareholder	1,221	1,221	1,221	1,221
Amount due to subsidiaries	-	-	351	351
Amount due to associates	6,397	6,399	6,375	6,375
Amount due to a director and a shareholder of the Company	3,560	3,560	3,560	3,560
Tax payable	110	152	-	-
	<u>143,248</u>	<u>163,019</u>	<u>23,422</u>	<u>24,854</u>
Net current assets/(liabilities)	38,377	38,924	39,746	42,626
Non current liabilities				
Bonds payable	10,281	10,281	10,281	10,281
Interest payable	217	35	217	35
Total liabilities	153,746	173,335	33,920	35,170
Net assets	35,265	35,143	31,742	35,042



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	←----- The Group -----→		←----- The Company -----→	
	As at		As at	
	30 September 2017	30 June 2017	30 September 2017	30 June 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
Equity				
Share capital	46,041	46,041	46,041	46,041
Reserves	(10,776)	(10,898)	(14,299)	(10,999)
Total attributable to equity holders of the company	35,265	35,143	31,742	35,042
Non-controlling interest	-	-	-	-
Total equity	35,265	35,143	31,742	35,042

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

RMB '000	As at 30 September 2017		As at 30 June 2017	
	Secured	Unsecured	Secured	Unsecured
Bonds	-	-	-	-

Amount repayable after one year

RMB '000	As at 30 September 2017		As at 30 June 2017	
	Secured	Unsecured	Secured	Unsecured
Convertible Bonds(i)	-	10,281	-	10,281

(i) Convertible Bonds :

In connection with the Company's announcements dated 25 November 2016, 23 December 2016, 23 March 2017, 24 April 2017, 9 May 2017, 26 May 2017 and 2 June 2017, the Company had on 2 June 2017 completed the issuance (the “**2017 CB Issuance**”) of 7.0% unsecured convertible bonds (the “**DJZ Convertible Bonds**”) due 2 June 2020 of an aggregate principal amount of S\$2,100,000 to Mr. Dai Ji Zhou (the “**Mr. Dai Ji Zhou**”) pursuant to a convertible bond agreement dated 25 November 2016 entered into between the Company and Mr. Dai Ji Zhou (the “**CBA**”). The DJZ Convertible Bonds bear an interest rate of 7% per annum, which is payable quarterly in arrears.

The maturity date of the DJZ Convertible Bonds is three years from the date of the issue of the DJZ Convertible Bonds (the “**Maturity Date**”). Mr. Dai Ji Zhou may, in accordance with the terms and conditions of the CBA, at any time within the period commencing three (3) months from the issue date up to the Maturity Date, convert all or part of the outstanding DJZ Convertible Bonds into new ordinary shares in the capital of the Company (“**Shares**”) at the conversion price of S\$0.35 per share.



Asia Fashion Holdings Limited

(Company Registration No. 41195)
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UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

1(c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated statement of cash flows for the Group		3M2018	3M2017
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit / (Loss) before taxation		122	(2,095)
Adjustments for:			
Depreciation of property, plant and equipment		617	-
Interest income		(195)	-
Interest expense		182	441
Operating profit/(loss) before working capital changes		726	(1,654)
Decrease in inventories		181	-
Decrease / (Increase) in other receivables		24,228	(25)
(Decrease) / Increase in amount due to associates		(2)	2,836
(Decrease) in accruals and other payables		(15,090)	(1,095)
(Decrease) in tax payable		(42)	-
Cash generated from / (used in) operations		10,001	62
Interest paid		-	(215)
Net cash generated from / (used in) operating activities		10,001	(153)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) in property, plant and equipment		(1,468)	-
Interest received		195	-
Net cash (used in) investing activities		(1,273)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Net advances from director and shareholder		-	-
(Repayment) of loans to third parties		(4,637)	-
Proceeds from issue of shares – share capital		-	-
Repayment of bonds		-	-
Net cash (used in) financing activities		(4,637)	-



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NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				4,091	(153)
Cash & cash equivalents at beginning of the financial period				104,838	311
Cash & cash equivalents at the end of the financial period				108,929	158
Cash and cash equivalents comprise:					
Cash and bank balances :					
- Continuing operations				108,929	158
-					
Cash & cash equivalents at the end of the financial period				108,929	158



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UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of changes in equity for the Group and for the Company

Group

	Share Capital	Contributed Surplus	Share Premium	Capital Reserve	Share Option Reserve	Merger Reserve	Statutory Reserve	Retained Earnings	Other reserve	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015 (Restated)	19,220	172,983	65,466	4,230	-	(64,889)	45,303	(226,827)	-	15,486
Shares placements done in Feb 2015, April 2015 and Oct 2015	8,073	-	32,636	-	-	-	-	-	-	40,709
Disposal of QIL Group as approved in SGM on 2 Feb 2015	-	-	(13,967)	(1,216)	-	64,889	(45,303)	(4,403)	-	-
Total comprehensive loss for the period from 1 Jan 2015 to 30 June 2016	-	-	-	-	-	-	-	(28,393)	-	(28,393)
Balance at 30 June 2016 (Audited)	27,293	172,983	84,135	3,014	-	-	-	(259,623)	-	27,802
Shares placement done in June 2017	18,748	-	-	-	-	-	-	-	-	18,748
Total comprehensive loss for the year ended 30 June 2017	-	-	-	-	-	-	-	(11,407)	-	(11,407)
Balance at 30 June 2017 (Audited)	46,041	172,983	84,135	3,014	-	-	-	(271,030)	-	35,143
Total comprehensive income for FY2018 Q1 ended 30 September 2017	-	-	-	-	-	-	-	122	-	122
Balance at 30 September 2017 (Unaudited)	46,041	172,983	84,135	3,014	-	-	-	(270,908)	-	35,265



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Company	Share Capital	Contributed Surplus	Share Premium	Capital Reserve	Share Reserve	Option	Retained Earnings	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Balance at 1 January 2015 (Restated)	19,220	172,983	51,499	3,014	-		(285,277)	(38,561)
Shares placements done in Feb 2015, April 2015 and Oct 2015	8,073	-	32,636	-	-		-	40,709
Disposal of QIL Group as approved in SGM on 2 Feb 2015	-	-	-	-	-		54,047	54,047
Total comprehensive loss for the period from 1 Jan 2015 to 30 June 2016	-	-	-	-	-		(28,393)	(28,393)
Balance at 30 June 2016 (Audited)	27,293	172,983	84,135	3,014	-		(259,623)	27,802
Shares placement done in June 2017	18,748	-	-	-	-		-	18,748
Total comprehensive loss for the year ended 30 June 2017	-	-	-	-	-		(11,508)	(11,508)
Balance at 30 June 2017 (Audited)	46,041	172,983	84,135	3,014	-		(271,131)	35,042
Total comprehensive loss for FY2018 Q1 ended 30.9.2017	-	-	-	-	-		(3,300)	(3,300)
Balance at 30 September 2017 (Unaudited)	46,041	172,983	84,135	3,014	-		(274,431)	31,742



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1(d)(ii) Details of any changes in the company’s share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

2017 Share Placement

In connection with the Company’s announcements dated 7 December 2016, 23 December 2016, 23 March 2017, 24 April 2017, 9 May 2017, 26 May 2017 and 5 June 2017 in respect of the proposed issue and allotment of 35,000,000 new shares (the “**2017 Share Placement**”) to Hu Zhen, Li Zheng, Ng Wa Pang and Dai Ju Yun (the “**Placees**”) (“**Share Placement Announcements**”) and the circular dated 10 May 2017 (the “**2017 Issuance and Placement Circular**”) in respect of the 2017 CB Issuance and 2017 Share Placement, the 2017 Share Placement was completed at a price of S\$0.11 per Placement Share (as defined in the Share Placement Announcements) to the Placees on 5 June 2017.

After the completion of the 2017 Share Placement, the total number of issued shares of the Company has increased from 50,500,000 Shares to 85,500,000 Shares (excluding treasury shares). The Placement Shares represent (i) approximately 69.31% of the existing issued and paid-up share capital of the Company as at 30 June 2016; and (ii) approximately 40.94% of the enlarged issued and paid-up share capital of the Company as at 30 June 2017.

The Placement Shares rank *pari passu* in all respect with the existing Shares.

Proposed Placement

In connection with the Company’s announcements dated 8 August 2017 and 18 August 2017, the Company has entered into a placement agreement dated 8 August 2017 (“**FSL Placement Agreement**”) with Freeman Securities Limited as an overseas placement manager (the “**Overseas Placement Manager**”) whereby the Overseas Placement Manager (as placement agent) has agreed to use its best efforts to identify subscriptions for up to 145,000,000 new Shares (“**FSL Placement Shares**”) at the issue price of HK\$0.90 per FSL Placement Share, subject to and upon the terms of the FSL Placement Agreement.

After the completion of the FSL Share Placement, the total number of issued Shares of the Company has increased from 85,500,000 Shares to 230,500,000 Shares (excluding treasury shares). The Placement Shares represent (i) approximately 169.6% of the existing issued and paid-up share capital of the Company as at 30 June 2017; and (ii) approximately 62.91% of the enlarged issued and paid-up share capital of the Company as at 30 June 2017.

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

2017 CB Issuance

In connection with the Company’s announcements dated 25 November 2016, 23 December 2016, 23 March 2017, 24 April 2017, 9 May 2017, 26 May 2017 and 2 June 2017 in respect of the proposed issuance of Convertible Bonds to Mr. Dai Ji Zhou for S\$2,100,000 (“**CB Issuance Announcements**”) and the 2017 Issuance and Placement Circular, the 2017 CB Issuance was completed on 2 June 2017.



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(Company Registration No. 41195)
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After the completion of the 2017 CB Issuance, on the completion of the conversion of the Convertible Bonds to Conversion Shares of a maximum of 7,260,000 Shares (in respect of both the principal amount and the full interest payable), the Conversion Shares will represent (i) approximately 14.38% of the existing issued and paid-up share capital of the Company as at 30 June 2016; and (ii) approximately 8.49% of the enlarged issued and paid-up share capital of the Company as at 30 June 2017.

Alternus Convertible Bonds

In connection with the Company's announcements dated 5 March 2015, 16 March 2015, 27 March 2015, 31 March 2015, 7 July 2015, 2 September 2016, 10 March 2017, 4 May 2017 and 8 June 2017 in respect of the issuance of convertible bonds to Alternus for S\$2,660,000, the Company has, on 8 June 2017, made full settlement of the principal amount of S\$2,660,000 of the Alternus Convertible Bonds, as well as all the interest accrued thereon up to the final settlement date of 8 June 2017. Subsequent to the aforementioned settlement, the Alternus Convertible Bonds have been returned to the Company for cancellation and Alternus holds no further claims against the Company.

Save as set out under this Section 1(d)(ii), there are no other outstanding convertible securities and the Company did not have any other convertible securities as at 30 September 2017.

The Company did not have treasury shares or subsidiary holdings as at 30 September 2017 and 30 September 2017 respectively.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of issued shares as at the end of the current financial period and as at the end of the immediately preceding year is 85,500,000 and 85,500,000 ordinary shares, respectively.

The Company does not hold any treasury shares.

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The financial information for the first three months ended 30 September 2017 has not been audited nor reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Pursuant to the Company's announcement made on 31 July 2017 (“the Proposed Transaction”), the Company has entered into a non-binding term sheet with (i) Mr. Huo Wei Sheng, a former executive director of the Company, and (ii) Ms. Li Ya Xin, a fellow shareholder of Rich Circles, for the proposed sale of the Company's and Ms. Li Ya Xin's shares in the capital of Rich Circles (the “RC Shares”) to Mr. Huo Wei Sheng. The Company currently holds 6,100 RC Shares and Ms. Li Ya Xin currently holds 5,100 RC Shares, representing 54.46% and 45.54% of the total issued and paid up capital of Rich Circles respectively. Rich Circles indirectly holds 100% of the shares in the capital of Xuzhou Zhongwei, which currently operates the materials business of the Group in China. The parties to the Term Sheet intend to engage in further negotiations of the Proposed Transaction, with a view to



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entering into definitive agreement(s) on or before 30 November 2017. The management will provide meaningful updates on the progress of such negotiations to shareholders from time to time.

Despite the aforementioned negotiations with Mr. Huo Wei Sheng and Ms. Li Ya Xin on the Proposed Transaction, the local management of Xuzhou Zhongwei has also been in on-going negotiations with the SME Bondholders in hope of arriving at mutually acceptable commercial solution to the friendly settlement of the SME Bonds default issue. The management will also promptly inform shareholders on the progress and result of such negotiation deemed appropriate from time to time.

4. Whether the same accounting policies and methods of computation as in the issuer’s most recently audited annual financial statements have been applied.

The Group has adopted all the Singapore Financial Reporting Standards that are mandatory for financial year beginning on or after 1 July 2016.

The accounting policies and methods of computation are consistent with the latest audited financial statements for the year ended 30 June 2017 including, but not limited to, the continual adoption of equity instead of full consolidation basis in the accounting of the Company’s investment in the Rich Circles Group, despite the fact that the Company’s shareholding in Rich Circles Group has been increased from 49% to 54.46% on 27 May 2015. Please see note 8 for further explanation.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

There is no change in the accounting policies and methods of computation, including any required by an accounting standard.

6. Earnings / (Loss) per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	3M2018	3M2017
Basic earnings (loss) per share (RMB cents)		
From continuing operations attributable to the equity holders of the Company:		
- Based on the weighted average number of ordinary shares in issue	0.14	(4.15)
- Fully diluted	0.14	(4.15)
Number of shares in issue		
Current / weighted average number of ordinary shares in issue	85,500,000	50,500,000

7. Net asset value (for the Company and Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

RMB Cents	The Group		The Company	
	30 Sept. 2017	30 June 2017	30 Sept. 2017	30 June 2017
Net asset value per ordinary share	41.25	41.10	37.13	40.98

Note:-

Net asset value per ordinary share of the Group/Company was calculated based on the 85,500,000 and 85,500,000 shares in issue as at 30 September 2017 and as at 30 June 2017, respectively.



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(Company Registration No. 41195)
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UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

8. **A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group’s business. It must include a discussion of the following:-**

- (a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**

As reported in the result announcement for the year ended 30 June 2017, despite the fact that on 27 May 2015, the Company increased its shareholding in the Rich Circles Group from 49% to 54.46% or to 6,100 shares out of an expanded total number of 11,200 shares, the Company’s management has re-visited the issue of “control” as a result of the default in the prompt repayment of the SME Bonds by Xuzhou Zhongwei (which was issued before Xuzhou Zhongwei was acquired by the Rich Circles Group) on 28 March 2016 and has come to the conclusion that it is more appropriate to treat the Rich Circles Group as the Company’s associated company instead of a subsidiary, thereby adopting the “equity” instead of “full consolidation” basis of accounting for the Rich Circles Group’s financial performance, for the following main reasons :

- 1) With effect from 28 March 2016, the date of default of repayment of the total amount of RMB 234 million SME Bonds (comprising the principal amount of RMB 180 million and interest accrued thereon of approximately RMB54 million from 28 March 2013 to 28 March 2016) to the respective SME Bondholders, the SME Bondholders have been in a position to take whatever proper legal action(s) in Xuzhou against Xuzhou Zhongwei for the recovery of the sums owing under the SME Bonds. Despite being in a position to take legal action against Xuzhou Zhongwei, the SME Bondholders have been willing to enter into negotiation with the Xuzhou Zhongwei local management and Ms. Li Ya Xin as Rich Circles Group’s major shareholder, in search for a mutually agreeable and acceptable solution. The SME Bondholders have not filed any legal action against the Rich Circles Group as the Rich Circles Group is neither a borrower under any financial facilities with the SME Bondholders nor a guarantor of the SME Bonds. The Company has been informed by the local management of Xuzhou Zhongwei that the daily operations of Xuzhou Zhongwei have been under observation by a major SME Bondholder (whose identity is not disclosed due to confidentiality terms under the SME Bonds) while in the negotiation, 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 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 2017 (under pages 28 – 30);
- 2) Ms. Li Ya Xin, the other major shareholder of the Rich Circles Group who has owned the remaining 45.54% of its shareholding with effect from 27 May 2015, had on 8 August 2014 granted an irrevocable Power of Attorney (“**POA**”) to Mr. Yuan Li Min (the then Non-executive Director of the Company) authorizing Mr. Yuan to represent her in all operational and control aspects of the Rich Circles Group for a period of 20 months. Such POA expired on 8 April 2016 and extension or renewal was not been granted by Ms. Li Ya Xin to Mr. Yuan Li Min or other legal representative of the Company. It is therefore apparent that the Company does not have any direct or indirect control through Ms. Li Ya Xin’s shareholdings in Rich Circles Group;

Subsequently, the Company has been informed by Ms. Li Ya Xin that she has granted a new irrevocable POA to her brother-in-law, a Mr. Wong who is a person unrelated to but having a very strong and friendly business relationship with the SME Bondholders and who shall work very closely with the SME Bondholders in the currently on-going negotiation about reaching a solution or agreement with the SME Bondholders as direct representative of Ms. Li Ya Xin. It is evidenced that Ms. Li Ya Xin will cooperate with the



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(Incorporated in Bermuda)

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

SME Bondholders under the proper legal framework in China. Whereas the Company effectively had 100% control of the Rich Circles Group through its 54.46% shareholding combined with the POA granted by Ms. Li Ya Xin to Mr. Yuan Li Min over, *inter alia*, her 45.54% shareholding in the Rich Circles Group, Ms. Li Ya Xin’s non-renewal / non-extension of such POA granted to Mr. Yuan Li Min has weakened the control possessed by the Company over the Rich Circles Group;

- 3) Due to the ongoing financial incapability of the Company and Ms. Li Ya Xin, it was obvious that the current shareholders of the Rich Circles Group will not be able to raise cash funds of as much as RMB 180 million for injection into Xuzhou Zhongwei to enable Xuzhou Zhongwei to repay the SME Bonds in the near foreseeable future. Accordingly, the local management including but not limited to Mr. Huo Wei Sheng, who is a current executive director of the Company and the legal representative of Xuzhou Zhongwei, has strong tendency to work closely with the SME Bondholders in all aspects of daily normal operations of Xuzhou Zhongwei to avoid the SME Bondholders taking legal actions against them; and
- 4) The Company does not have substantive rights that provide the Company with the ability to exercise that right and to direct relevant activities in Xuzhou Zhongwei.

Accordingly, the management reached a consensus that it is more appropriate from the practical point of view and the current operational position that the Company will treat the Rich Circles Group as our associated company and adopt the “equity” accounting basis for recording Rich Circles Group’s financial performance for the financial year ending 30 June 2018, which is in fact consistent with the Company’s accounting treatment of the Rich Circles Group for the financial year ended 30 June 2017, for the 18 months’ period from 1 January 2015 to 30 June 2016 and the financial year ended 31 December 2014. While the Rich Circles Group is exempt from audit under the Ordinance laws of Hong Kong, the Company’s auditors have performed all necessary audit reviews and tests on the books and accounts of Rich Circles (an investment holding company ultimately owning the other companies in the Rich Circles Group) and China Construction Material (Hong Kong) Limited (“CCMH”) for the financial period ended 30 June 2016 and concurred with the management’s view and decision. Rich Circles and CCMH are 2 out of the 4 companies that constitute the Rich Circles Group, the other 2 being Zhongchuang (Xuzhou) Construction Material Co. Ltd. and Xuzhou Zhongwei. The situation of Rich Circles and the management’s point of view has not been changed since last reporting date till date of this results announcement.

The Rich Circles Group is owned by the Company (54.46%) and Ms. Li Ya Xin (45.54%) as mentioned above. The Rich Circles Group is operating and a going concern. Its current directors are Mr. Mak Tin Sang (as representative of the Company), Ms. Li Ya Xin (representing herself) and Mr. Yuan Li Min (as independent director). Mr. Yuan Li Min is a former non-executive chairman of the Company (until his resignation on 27 October 2015). 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.

As Xuzhou Zhongwei has defaulted in its repayment of the SME Bonds (due on 28 March 2016) to the SME Bondholders, the management is closely monitoring the progress of the abovementioned negotiations between Xuzhou Zhongwei and the bondholders to determine whether there will be any significant impact of the recovery of the Company’s RMB61 million loan from the Rich Circles Group.

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.



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

For detailed information on the matters in this Section 8(a), shareholders may wish to refer to pages 11 – 19 of the 2017 Issuance and Placement Circular (as released by the Company on 9 May 2017). Shareholders may also wish to refer to the the annual report of the Company for the financial year ended 30 June 2017 (“**2017 AR**”) and the Company’s response to further queries from the SGX-ST on the 2017 AR released by the Company on 6 November 2017.

- (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Review of Financial Position

Revenue of RMB 7.35 million (compared with nil for the first quarter ended 30 September 2016) was exclusively the sales revenue directly generated from the distribution sales of specially branded health supplement product made by Shanghai Daiyoulong (上海戴优垄新材料有限公司) (“**Shanghai Daiyoulong**”), being the Company’s wholly-owned subsidiary incorporated in Shanghai in March 2017 which is principally engaged in the distribution sales of the aforementioned specially branded health supplement product named “Jiajinyo” to customers in China. The sales activities has actually commenced in June 2017 and the revenue as reflected in the income statement represented the sales revenue generated in the months of July, August and September 2017.

For information purposes, the turnover at the Xuzhou Zhongwei level has continue dropping significantly in the past few quarters as a result of discontinued orders from Beijing Baota Petrochemical Company Limited (“**Baota**”) and Han Energy Co., Ltd (“**Han Energy**”) respectively, which has already been reported in the past quarterly results announcements.

Other operating income of RMB 289K (compared with nil for the first quarter ended 30 September 2016) mainly represented the interest income earned on the bank deposits and the return on investment in financial assets (cash funds) made by Shanghai Daiyoulong;

Selling and distribution expenses of RMB 268K (compared with nil for the first quarter ended 30 September 2016) mainly represented the expenses incurred in relation to the sales and marketing activities carried out in Shanghai Daiyoulong.

Administrative expenses of RMB 4.42 million (compared with RMB 1.65 million for the first quarter ended 30 September 2016) mainly includes staff salaries and directors’ remuneration, office rentals and property management fees incurred by both the new corporate head office set up in Hong Kong and the Shanghai Daiyoulong’s new office set up in Shanghai, business travelling expenses, corporate action related expenses and professional fees incurred.

Finance costs of RMB 182K (compared with RMB 441K for the first quarter ended 30 September 2016) was mainly related to interest accrued on the 7% Convertible Bonds issued to Mr. Dai Ji Zhou on 2 June 2017 as described in detail in sub-section 1(b)(ii) on page 4 of this results announcement.

Income tax expense of RMB 1.14 million (compared with nil for the period ended 30 September 2016) exclusively represented the income tax provision in respect of the People’s Republic of China (“**PRC**”) made at 25% on the estimated taxable net income generated by Shanghai Daiyoulong for its three months’ financial period ended 30 September 2017.

- (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.**

Review of Financial Position

Property, plant and equipment of RMB 7.37 million as of 30 September 2017 (compared with RMB 6.52 million as of 30 June 2017) represented the net book value of office furniture and equipment and



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

the furnishing cost of the Company's new headquarter office in Hong Kong of approximately RMB 2.49 million and the net book value of office furniture and equipment and the furnishing cost of Shanghai Daiyoulong's new operating office in Shanghai of approximately RMB 4.88 million.

Inventories of RMB 391K as of 30 September 2017 (compared with RMB 572K as of 30 June 2017) exclusively represented the cost of inventories of the product “Jiajinyo” and relevant product packing materials kept by Shanghai Daiyoulong as of 30 September 2017.

Prepayments and other receivables of RMB 5.28 million as of 30 September 2017 (compared with RMB 29.51 million as of 30 June 2017) mainly represented (i) a deposit of RMB 4.0 million made by Shanghai Daiyoulong to Shenzhen Ximei (燊美科技(深圳)有限公司) for the placement of orders for the product “Jiajinyo”; (ii) approximately RMB 0.61 million being prepayments made to cooperative business partners for the entertainment and amusement projects entered into by the Company's subsidiary Asia Entertainment (Hong Kong) Limited; and (iii) approximately RMB0.67 million being rental and utilities deposits made by the Group.

Loan to an associate of RMB 61.0 million as of 30 September 2017 (compared with RMB 61.0 million as of 30 June 2017) represented the operating loan extended to the Rich Circles Group as reported as of 30 June 2017.

Cash funds of RMB 6.0 million as of 30 September 2017 (compared with RMB 6.0 million as of 30 June 2017) exclusively represented the financial assets purchased by Shanghai Daiyoulong from reputable banking corporations in China with the objective of getting higher financial return for the Group on the cash possessed in its local bank account in Shanghai.

Cash and cash equivalents of RMB 108.93 million as of 30 September 2017 (compared with RMB 104.84 million as of 30 June 2017) mainly represented by the bank deposits of approximately RMB 107.82 million in Shanghai Daiyoulong and the bank deposits of approximately RMB 1.11 million in the Company's overseas entities.

Accruals and other payables of approximately RMB 128.15 million as of 30 September 2017 (compared with 143.24 million as of 30 June 2017) mainly represented customers' deposits received of approximately RMB 121.40 million for purchase of the product “Jiajinyo” from Shanghai Daiyoulong and other accrued operating expenses and professional expenses of approximately RMB 6.75 million at the Company's level.

Amount due to former director/shareholder of RMB 1.22 million as of 30 September 2017 (compared with RMB 1.22 million as of 30 June 2017) represented amount due to Mr. Lin Dao Qin which is interest free and repayable on demand.

Amount due to director/shareholder of RMB 3.56 million as of 30 September 2017 (compared with RMB 3.56 million as of 30 June 2017) represented RMB 3.35 million due to Mr. Yuan Li Min and RMB 0.21 million due to Mr. Mak Tin Sang, which are both interest free and repayable on demand.

Amount due to third parties of RMB 3.81 million as of 30 September 2017 (compared with RMB 8.45 million as of 30 June 2017) represented amount due to independent third parties which are interest free and repayable on demand.

Amount due to associates of RMB 6.40 million as of 30 September 2017 (compared with RMB 6.40 million as of 30 June 2017) was mainly due to the payment of costs and expenses by Rich Circles Group for and on behalf of the Company before the completion of the substantial fund raising exercises in June 2017.

Taxes payable of RMB 110K as of 30 September 2017 (compared with RMB 152K as of 30 June 2017) exclusively represented the PRC income tax provision made at 25% on the estimated taxable



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

net income generated by Shanghai Daiyoulong for its financial period ended 30 September 2017 less payments already made to the PRC Tax Authorities.

Bonds payable of RMB10.28 million as of 30 September 2017 (compared with RMB 10.28 million as of 30 June 2017) solely represented the principal amount of CB issued to Mr. Dai Ji Zhou on 2 June 2017 (S\$2.10 million) after full settlement of the Straight Coupon Bonds due payable to Prime Pacific Investments Limited and the CB issued and due payable to Alternus in April 2017 and June 2017 respectively. (Please refer to section 1(b)(ii) on page 4 of this package for more details.)

Interest payable of RMB 217K as of 30 September 2017 (Compared with RMB 35K as of 30 June 2017) solely represented the interest on the CB issued to Mr. Dai Ji Zhou accrued for the period from 2 June 2017 to 30 September 2017.

Review of Cash Flow

Net cash generated by the Group of approximately RMB 4.09 million in the reporting quarter as follows:

During the quarter ended 30 September 2017, the Group has generated a net amount of approximately RMB 10.0 million from operating activities mainly as a result of the decrease in other receivables of approximately RMB 24.23 million on one hand and the decrease in accruals and other payables of approximately RMB 15.09 million on the other.

During the quarter ended 30 September 2017, the Group has used approximately RMB 1.27 million in investing activities mainly as a result of purchase of property, plant and equipment of approximately RMB 1.47 million and the receipt of interest income of approximately RMB 0.20 million.

During the quarter ended 30 September 2017, the Group has used approximately RMB 4.64 million in financing activities solely as a result of making partial repayment of loans to third parties.

As a result of the above, the Group has reported a total cash and cash equivalent balance of RMB 108.93 million as of 30 September 2017 (compared with RMB 104.84 million as of 30 June 2017).

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

There are no variances between any forecast or prospect statements disclosed to shareholders and the actual results.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The financial performance of Xuzhou Zhongwei's New Material business for the first quarter of FY2018 has been continuously weak which was still mainly due to the sharp decline and close to termination of sale made to our two major customers namely Han Energy and Baota both of which have encountered unforeseen difficulties in their respective operations of different nature as reported in the past few quarters. At this point in time the management is almost certain that the economic and operational recoverability of these two major customers and to provide promising prediction about the recoverability of the sales in Xuzhou Zhongwei's New Material Business in the next reporting period and in the next 12 months is remote. Adding the fact that Xuzhou Zhongwei has defaulted its repayment of a total of RMB234 million of SME Bonds, being RMB180 million in principal amount and RMB54 million in interest accrued thereon, to the SME Bondholders on 28 March 2016 has made the recovery of the sales operations and continuous loss situation of Xuzhou Zhongwei an extremely difficult task to the present Xuzhou local management as well as to the listco management and directors.



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

Similarly, the development of the amusement and entertainment business by our Asia Entertainment subsidiaries has remained static in the reporting period due to highly competitive market condition in and the inability of the Company to inject massive capital or project investment funding typically demanded in achieving medium to long term success in this sort of business in Hong Kong.

However, as reported in the last quarter, the Group has incorporated a new wholly owned subsidiary in Shanghai, namely Shanghai Daiyoulong which has already commenced its new active business in the distribution sales of a specially branded health supplement product called “Jiajinyo” in China in the latter half of June 2017. The encouraging news is that Shanghai Daiyoulong has been able to achieve steady and sustainable sales revenue and reasonable gross profit contribution from this new business in the months of July 2017, August 2017 and September 2017 respectively.

In this reporting quarter, the Group has, since 1 January 2015 onwards, recorded a direct sales revenue of RMB 7.35 million and has reported for the first time a net operating profit after tax (of RMB 122K).

Looking ahead, the management is fairly confident and determined that the Group will continue to focus on the strengthening and steady development of this distribution sales business in China through searching for the supply of more promising and reliable new products for distribution sales purposes and through exploring strategic business partnership with industry leaders in China in order to enhance the sales revenue and profitability of the Group and to achieve vigorous growth objective of this business for the next reporting period and the next 12 months. The Board will provide prompt updates on the development of this new business initiative as well as other promising business opportunities to our shareholders from time to time.

11. Dividend

(a) Whether an interim (final) ordinary dividend has been declared (recommended)

No dividend was declared for the current financial period reported on.

(b)

(i) Amount per share

Not applicable.

(ii) Amount per share for corresponding period of the immediately preceding financial year

Not applicable. No dividend was declared for the corresponding period of the immediately preceding financial year.

(c) Whether the dividend is before tax, net of tax or tax exempt.

Not applicable.

(d) Date payable

Not applicable.

(e) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.



Asia Fashion Holdings Limited

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

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017 (“1Q2018”)

No dividend has been declared/recommended during the period.

- 13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

No general mandate from shareholders for interested person transactions has been obtained.

- 14. Confirmation by the Board pursuant to Listing Rule 705(5) of SGX Listing Manual**

The Directors confirmed that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial information of the Company and of the Group for the first quarter ended 30 September 2017 to be false or misleading in any material respect.

- 15. Confirmation pursuant to Rule 720(1)**

The Directors confirms that undertakings under Rule 720(1) have been obtained from all its directors and executive officers in the format set out in Appendix 7.7.

BY ORDER OF THE BOARD

Chong Tin Yam, Alex
Chief Executive Officer & Executive Director
13 November 2017