

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors (the "**Board**") of Asia Fashion Holdings Limited (the "**Company**") refers to the despatch of annual report for the year ended 31 December 2013 on 14 May 2014 to all shareholders. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 26 May 2014 (each, a "**SGX Query**") as follows:

SGX Query 1

Paragraph 9.4 of the Code of Corporate Governance 2012 (the "**Code**") states that for transparency, the annual remuneration report should disclose the details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S\$50,000. The company need only show the applicable bands. We note that the Company did not disclose the remuneration for employees who are immediate family members in incremental bands of S\$50,000. As required by Rule 1207(12) of the Listing Manual, please make disclosures as recommended in paragraph 9.4 of the Code or otherwise explain the reason(s) for the deviation from the following Code recommendations.

Company's Response to SGX Query 1

The breakdown of total remuneration of employees who are immediate family members of a director or the CEO whose remuneration exceed S\$50,000 per annum for the financial year ended 31 December 2013 is set out below:

Name	Salary	Bonus	Other Benefits	Total
Above S\$50,000				
Lin Xiujin	S\$112,515	-	-	S\$112,515

Ms Lin Xiujin is the spouse of Mr Lin Daoqin, the Executive Director and CEO of the Company.

The Company had also disclosed Ms Lin Xiujin's remuneration of S\$112,515 under the section "Key Management Personnel" on Page 18 of the Annual Report. Save for Ms Lin Xiujin, there are no employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year.

SGX Query 2

Paragraph 11.3 of the Code of Corporate Governance 2012 (the "Code") states that the Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, in the company's Annual Report. As recommended in paragraph 11.3 of the Code and pursuant to Rule 710 of the Listing Manual, please make disclosures on the Board's comments on the adequacy and effectiveness of the Company's risk management systems or otherwise explain the reason(s) for the deviation from the following Code recommendations.

Company's Response to SGX Query 2

The Board had provided its comments on Page 20 of its Annual Report as follows:

"Based on the discussion with and the reports submitted by the external auditors, the discussion with the Management, the Board, with the concurrence of the AC is of the opinion that, the system of internal controls addressing financial, operational, compliance and information technology risks maintained by the Company and in place throughout the financial year ended 31 December 2013 are adequate, but warrants further adjustments and improvements. The system provides reasonable, but not absolute, assurance against material financial misstatements or loss, and includes 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."

As the Company does not have a risk management committee, the Management assume the responsibility of the risk management function. The Management is responsible for designing, implementing and monitoring the risk management system within the Company. The Management regularly reviews the Company's business and operational activities to identify areas of significant risks as well as take appropriate measures to control and mitigate these risks. The Management highlights any significant matters to the Board and the AC for their deliberation.

The AC will annually review the Company's internal controls and risk management systems. The Company will be appointing HLB Atrede LLP as its internal auditors. The work of the internal auditors is a multi-stage process and the initial scope of work shall focus on the assessment of the effectiveness of the internal controls system addressing financial, operational, compliance and information technology risks as well as risk management system.

Based on the discussion and the reports submitted by the external auditors, the discussion with the Management, the Board with the concurrence of the AC, is of the opinion that the Company's internal controls system in addressing financial, operational, compliance and information technology risks as well as risk management system are adequate as at 31 December 2013.

In addition, further to the announcements by the Company on 8 May 2014 on the report issued by PricewaterhouseCoopers LLP ("**PwC**") dated 7 May 2014 (the "**PwC Report**") in respect of the Company's key subsidiaries, namely, Fujian Jiamei Textile Co., Ltd. ("**Jiamei**") and Fujian Qianfeng Textile Technology Co. Ltd. (formerly known as Fuzhou Jimei Dyeing and Weaving Co. Ltd.) ("**Qianfeng**") (collectively, the "**Key Subsidiaries**"), both incorporated in the People's Republic of China ("**PRC**"), the Company has put in place additional controls and measures as set out in Annex A to this announcement.

Further to the additional measures implemented, the Board is of the opinion that the updated system of internal controls addressing financial, operational and compliance risks maintained by the Company will better provide reasonable, but not absolute, assurance against material financial misstatements or loss, and includes 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. The Board notes that all internal controls systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

SGX Query 3

It was disclosed on page 24 that “Our Executive Director, Mr Lin Daoqin has provided personal guarantees to Shanghai Pudong Development Bank, Fuqing Branch in respect of some banking facilities granted to the Company (“Personal Guarantees”).” Please provide details of this arrangement.

Company’s Response to SGX Query 3

Mr. Lin has provided a personal guarantee of up to RMB10million to Shanghai Pudong Development Bank, Fuqing Branch (“**SPDB**”), which extends to in the following loan facilities granted by SPDB to to Qianfeng, the Company’s wholly-owned subsidiary:

- (a) A loan of RMB3 million which has been repaid by Qianfeng. Qianfeng is currently applying for a new loan facility of RMB10 million, which is intended to be further secured by the assets of the Company and its subsidiaries (the “**Group**”).
- (b) A loan of RMB4 million which is repayable on 21 August 2014. The interest rate of the loan is fixed at a 30% mark-up on the People’s Bank of China’s benchmark interest rate.

SGX Query 4

We refer to the PwC Report announced by the Company on 8 May 2014. As disclosed on pages 11 and 12 of the PwC Report, PwC noted that several withdrawals involving funds totaling RMB9.5 million from Qianfeng’s China Construction Bank, Fuqing Branch (“**CCB**”) RMB account was deposited into Lin Xiu Jin’s personal account at CCB. While we note that Lin Xiu Jin is a substantial shareholder of the Company and she is also the spouse of the CEO of the Company, it was disclosed on page 24 “Save for the Personal Guarantees, there were no interested person transactions which require disclosure pursuant to the rules under the Listing Manual of the SGX-ST. Please disclose whether this interested person transaction was disclosed in the Company’s annual report and how has the Company complied with Chapter 9 of the Listing Manual.

Company’s Response to SGX Query 4

These amounts are not interested person transactions as there were no “transaction” between Xiu Jin and the Group. The amounts deposited in Xiu Jin’s personal account was used to pay the Group’s expenses as follows: (a) RMB 5.95 million was utilized to repay the bank loan owing by the Group to SPDB; (b) RMB 2.8 million was utilized to pay expenses on behalf of the Company; and (c) RMB 0.8 million was used for the disbursement of Group expenses.

By Order of the Board

Lin Daoqin
Executive Director and Chief Executive Officer
27 May 2014

ANNEX A
ADDITIONAL CONTROLS AND MEASURES

(a) Procedures to Address the Compensation Claims

- (i) As announced by the Company in its circular to shareholders on 4 November 2013, the Company has, since June 2013, taken active measures to improve the quality control of its manufacturing and distribution processes by strengthening its quality control procedures and by providing more training to the front line staff through weekly seminars. The management of the Company and Qianfeng has also been supervising its staff closely to ensure strict compliance with the Company's quality control guidelines, and has implemented quality control testing. The management of the Company has also instructed its staff to report any non-compliance of the Company's quality control guidelines or any complaints by any customers directly to the management of the Company. The Company has also strengthened its line of reporting for all incidents by appointing key personnel in-charge at various levels and by prescribing fixed time-lines for such reporting.

The Group has formulated detailed guidelines on the quality control procedures, and the staff are trained on the steps for the operation of the machines used to test the quality of the products. The products produced by the Group are subject to, *inter alia*, raw material testing, pH testing, pressure testing and color testing at the end of each process to ensure that the products conform to the requirements of the customers.

- (ii) Under the improved quality control procedures, the purchase orders and the delivery orders issued upon the delivery of the products provide that the customers of the Key Subsidiaries shall acknowledge that they shall examine the goods and shall promptly inform the supplier of any defects identified. Under the purchase orders, if the customers have taken steps to process these goods into end products without the consent of the supplier, the customer shall be responsible for any consequences thereafter.
- (iii) The Company is currently in negotiations with Alliance China General Insurance Company Ltd for the purchase of product liability insurance for the products of its Key Subsidiaries. The Company intends to complete the purchase of such product liability insurance by end June 2014.
- (iv) The Company has implemented the following new standard procedures for significant compensation claims of RMB500,000 as follows:
- (1) Claimants have to produce photographic evidence of damaged goods and documentary evidence on how the quantum of the proposed compensation claimed is derived by providing, *inter alia*, invoices on the costs of materials, third party purchase orders etc.
 - (2) An independent third party investigator / valuer shall be appointed to confirm that the goods are damaged, provide the value of such damaged goods, and provide an opinion on whether the compensation claimed is reasonable.
 - (3) A legal advisor from an established firm such as Dacheng Law Offices ("**Dacheng**") shall be appointed to provide legal advice on the compensation claims sought.
 - (4) All compensation payable pursuant to such claims shall require Board approval.

(b) Payment Control Procedure

At the Board meeting held on 26 March 2014, the Board had approved a payment control procedure recommended by the Company's CFO, Ng Poh Khoon, with the following approval procedures:

- (i) Payments of RMB 0.5 million: Requestor→Department head→ Finance Manager (“**FM**”) →General Manager (“**GM**”) →Cashier processes
- (ii) Payments of RMB 0.5 million to RMB 1 million: Requestor→Department head→FM→CFO→GM→Cashier processes
- (iii) Payments of RMB 1 million to RMB 5 million: Requestor→Department head→FM→CFO→GM→Chairman→Cashier processes
- (iv) Payments of RMB 5 million and above: Requestor→Department head→FM→CFO→GM→Chairman→Board→Cashier processes

(c) Termination of Internet Banking Facilities

All internet banking facilities of the Key Subsidiaries have been terminated, save for the internet facility for HSB, which only has an enquiry (and not a transfer) function.

(d) Control of Petty Cash

The Company has implemented a petty cash float limit of RMB 50,000 at any one time and a limit of a maximum of RMB 5,000 per payment. The finance staff is required submit petty cash transaction details to CFO monthly for review.

(e) Review of Interested Persons Transactions

The Company has adopted policies and procedures to address interested person transactions. The CFO has been tasked to review the management accounts of the Company and its subsidiaries and will highlight all interested person transactions therein to the Board's attention promptly. All interested persons transactions shall be subject to Board approval.

(f) Control and Custody of Seals

The Finance Seal, Legal Representative Seal and CEO's Personal Seal (collectively, the “**Seals**”) are currently being controlled and held by Mr. Ng Poh Khoon. The Seals shall be utilised as follows:

- (i) Mr. Ng Poh Khoon will maintain custody and control of the Seals until a suitable finance personnel based in the PRC and not related to Mr. Lin is appointed by the Group, and such finance personnel shall thereafter maintain the custody and control of the Seals; and
- (ii) the following procedures shall apply:
 - a. payments from the Key Subsidiary shall be made on a weekly basis, and the finance personnel shall submit payment requests for approval in accordance with the limits set out in the payment control procedures outlined above one week in advance; and
 - b. the Group shall submit requests to use the Seals as and when required.

The Company had also on 20 May 2014 appointed Dacheng to advise them on the amendments to the Constitution of the Key Subsidiaries to facilitate the change of legal representatives.

(g) Investigations

The Company has commissioned a high level review on the Management personnel involved in possible impropriety and negligence, and noted that the following employees who were involved in the compensation claims are no longer in the employment of the Group:

Name	Department	Title	Date of Resignation	Reason
Dong Mei	Quality Control	Section Head	October 2012	Responsible for not identifying defects promptly
Wang Chengrong	Quality Control	Section Head	October 2012	Responsible for not identifying defects promptly
Lin Ping	Sales Department	Sales Manager	April 2013	Responsible for sale of defective goods
Lin Yanfei	Sales Department	Sales Manager	March 2013	Responsible for sale of defective goods
Zhang Dacai	Production Department	Manager of Dyeing Section	October 2012	Responsible for producing defective product
Chen Xiufang	Finance Department	Manager	June 2013	Failure to observe finance controls

Mr Lin noted that the Company was subject to large amounts of compensation claims in FY2013 for the supply of defective products, and noted the concerns highlighted in the PwC Report. To take responsibility for the various issues faced by the Group, Mr. Lin has executed a deed of resignation dated 21 May 2014 to resign as a Director and Chief Executive Officer of the Group with effect from the conclusion of the Annual General Meeting of the Company to be held on 30 May 2014. Management is currently in discussion with Mr. Lin on his appointment as a consultant/advisor to the Key Subsidiaries to provide advice on the day-to-day operations of the Key Subsidiaries instead.

The Board will consider taking necessary legal and other action as appropriate upon being aware of any further developments. The Board will also continually monitor the situation and keep the shareholders apprised of any material developments.

(h) Appointment of Internal Auditors

The Company will be appointing HLB Atrede LLP as its internal auditors.