Attachment 1
Extract from Annual Report

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF ASIA FASHION HOLDINGS LIMITED

## Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Asia Fashion Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), as set out on pages 9 to 62, which comprise the statements of financial position of the Group and the Company as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the period from 1 January 2015 to 30 June 2016, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material statement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## Basis for Disclaimer of Opinion

1. The Company

1(i) Unverified transactions of the associated companies, opening balances and recoverability of balances

As fully described in Note 5 to the financial statements, it was reported in the auditor's report for financial year 2014, that there were unverified transactions of the associated company group, Rich Circles and its subsidiaries due to the fact that at that material time, no reasonable access was given to examine sufficiently the documentation that will adequately support certain transactions recorded in the accounting books of Rich Circles and its subsidiaries. Notably, the Company provided a loan of RMB 49 million to the associated company, Rich Circles which is repayable on 18 June 2016.

As of the date of this report, the RMB 49 million loan and the interest thereon owing by Rich Circles to the Company has not been repaid. In March 2015, the Company has further extended an interest-free loan of RMB 12 million with no fixed terms of repayment where the fund was raised from the convertible bond of S$2.66 million.

On the basis of the foregoing paragraphs, we were unable to determine the extent of goodwill, if any, due to lack of financial information at the time of acquisition.

On the basis of the matters referred to above, we were unable to obtain sufficient evidence to ascertain the recoverability of the two loans totalling RMB 61 million as at 30 June 2016. The financial statements did not include any adjustments that would be necessary if the amounts are not recoverable.

1(ii) Pending disposition of associated company group subsequent to the date of this report

As mentioned in Note 5 to the financial statements, towards the end of the financial period, the director of Xuzhou Zhongwei, Mr. Huo Weisheng is currently in negotiation to sell the Group's entire interest of 54.46% in Rich Circles and its subsidiaries (collectively known as the "associated company group") due to the default of the SME bond of RMB 180 million due on 28 March 2016. The director of Xuzhou Zhongwei, Mr. Huo Weisheng has been making attempts to renegotiate the settlement of this debt securities which has been extended once in the financial year 2014. One of the bond holders has also made an application to the Court for Orders of freezing of assets.

Mr. Mak Tin Sang, the then CEO of the Company indicated that since the month of May 2016, he has not been allowed to be involved in the negotiation with the bond holders as to any scheme of proposed settlement. Mr. Mak Tin Sang has resigned from the position of CEO and remained as CFO when the former CFO vacated his office.

## Basis for Disclaimer of Opinion (Cont'd)

1. The Company

1(ii) Pending disposition of associated company group subsequent to the date of this report (Cont'd)

Mr. Mak Tin Sang indicated that he is not able to provide the books and records of Xuzhou Zhongwei for the purpose of our audit.

Because of the occurrence of events as stated above, we were not allowed access to the books and records accordingly. We were only allowed to visit the plant located at Pizhou.

On the basis of the matters referred to above, there was a limitation of scope and no alternative procedures could be performed due to circumstances beyond the control of the Company and the Group and which caused us not able to obtain sufficient appropriate audit evidence. As a result, we were unable to determine the adjustments, if any, or presentations and disclosures to be made to this financial statements.

2. The Company and the Group

Going concern

During the financial period ended 30 June 2016, the Group reported loss of RMB 28.4 million and the net cash outflow from the operating activities was RMB 19.4 million.

On 4 March 2015, the Company raised a bond of RMB 7.9 million (HK$10 million) to provide working capital for the Company and the Group. This bond has interest carried at 10% which is due on 3 March 2017.

On 5 March 2015, the Company further raised RMB 11.9 million by way of issuance of convertible bonds of S$2.66 million for working capital purpose. The bond holder of the convertible bonds may convert all or part of the outstanding bonds and any accrued and unpaid interest in respect of each bond into new ordinary shares at the conversion price of $1.12 (after share consolidation). Upon maturity date on 4 March 2017, the bonds which are not previously redeemed or cancelled by the Company shall be redeemed by the Company at 100% of their principal amount together with all accrued and unpaid interest that was scheduled to be paid at the redemption date.

The directors of the Company have prepared a 18-month cash flow forecast to the financial period ending 31 December 2017 based on the fund raising exercise for the sum of RMB 25 million. In their assessment of the Group's and Company's ability to continue as a going concern where the liabilities owing to the bond holders are to be fully settled, they are of the view that the use of the going concern assumption in the preparation of the Group's financial statements and the Company's statement of financial position is appropriate.

We were not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reliability of the assessment made by the Company's directors, and the assumptions used by them in their forecast. The appropriateness of the use of the going concern assumption is dependent on the ability of the Group and the Company to raise additional fund to support the repayment of the bonds in cash if needed, to provide working capital for the new business venture in the entertainment sector, and sufficient cash flows for their requirements in the next twelve months.

## Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

## Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on whether the accounting and other records to be kept by the Company have been properly kept.

## Other Matters

Management involvement in associated company group

As mentioned in Note 5 to the financial statements, the directors of the Company continue to regard the investment of 54.46% interest in Rich Circles Enterprise Limited ("Rich Circles"), and its wholly-owned subsidiaries, China Construction Material (Hong Kong) Limited ("CCMH"), Zhongchuang (Xuzhou) Construction Material Co., Ltd ("Xuzhou Zhongchuang") and Xuzhou Zhongwei New Board Co., Ltd ("Xuzhou Zhongwei") (collectively known as "associated company group") as an associated company.

In the 2014 Annual Report, it was mentioned that arising from a change in the board composition of CCMH and Xuzhou Zhongwei, the Board has strong reasons to treat Rich Circles and its subsidiaries as the Company's subsidiaries. With effect from 27 May 2015 to 31 March 2016, the Company has reported Rich Circles and its subsidiaries as consolidated subsidiaries to SGX-ST in its quarterly reports.

In determining control as stipulated in Financial Reporting Standards ("FRS") 110 Consolidated Financial Statements, the directors of the Company have acknowledged and accepted that the announcements made before SGX-ST as to the quarterly reports for 2015 and 2016 did not correctly reflect the presentation and disclosure as required by the standards.

As mentioned in Note 5 to the financial statements, in June 2016, the directors of the Company have reassessed the extent of the control the Company may have in Xuzhou Zhongwei and acknowledged and thus confirmed that Xuzhou Zhongwei is only an associated company. Despite the Company having majority voting rights, the Company does not have substantive rights that provide the Company with the practical ability to exercise that right and to direct the relevant activities of Rich Circles and its subsidiaries.

Balances and discontinued operations classified as held-for-sale

It was reported in the auditor's report for financial year 2014 that the disclaimer of opinion included the effects of the opening balances relating to compensations to customers brought forward from 2013, and the effect of the discontinued operations of Qianfeng International Limited and its subsidiaries ("Qianfeng group") which have been classified as disposal group held-for-sale in 2014. As Qianfeng group had been disposed on 3 February 2015, Qianfeng group has been deconsolidated from the Group for the financial period ended 30 June 2016. Accordingly, the matters identified in the 2014 auditor's report no longer have any impact to the financial statements for the current financial period.

In respect of the financial period 2016, the then director and obligor, Mr. Lin Daoqin, had given an undertaking to the Company to take up all future claims and liabilities associated with the disposed Qianfeng group. According to the sale and purchase agreement for the disposal of Qianfeng group to Chengde Industrial Co., Limited, it was stated that on completion of the sale which was 3 February 2015, Chengde Industrial Co. Limited, shall irrevocably and unconditionally fully release, and discharge the Company from all liabilities, debts and obligations, known and unknown including any breach of warranties given by the Company and Mr. Lin Daoqin. In this regard, we have reviewed the legal opinion on the completion of this business undertaking provided by the PRC (People's Republic of China) counsel which confirmed that in their opinion the Company has been duly discharged of all its liabilities following the disposal of Qianfeng group. Chengde Industrial Co., Limited has agreed to undertake to assume the liabilities for compensation and guaranteed royalties to three external parties totalling RMB 13.9 million provided in the books of the Company and released all liabilities owing by the Company to the relevant parties and assumed the same as provided in the claim cancellation agreement entered into on 11 February 2015.

In the financial year 2014, our report was qualified on the basis that "We have not been able to satisfy ourselves as to the completeness and appropriateness of the provision for compensation to distributors amounting to approximately RMB 8.6 million and provision for minimum guaranteed royalty amounting to approximately RMB 5.3 million as at 31 December 2014".

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 11 November 2016