

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

**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON
THE ANNUAL REPORT OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”, and, together with its subsidiaries, collectively the “**Group**”) refers to its announcement on 11 October 2017 on the annual report of the Company for the financial year ended 30 June 2017 (the “**Annual Report**”). Capitalised terms not defined herein shall, in their respective contexts, have the meanings ascribed to them respectively in the Annual Report. 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 3 November 2017 (each, a “**SGX Query**”) as follows:

SGX Query 1

It was disclosed in the Company’s Annual Report 2017 (the “Annual Report”) that advances from a shareholder of the Company, Mr Yuan Limin, amounts to RMB 3,618,000. Please disclose:-

- i) The purpose of the loan;
- ii) Whether it is an interest free loan;
- iii) When was it advanced to the Company; and
- iv) A breakdown on how the amount has been utilized. Please provide details and quantify.

Company’s Response to SGX Query 1(i)

The purpose of the loan was to provide the Company with temporary financing of its working capital needs, in particular during the times of financial difficulties of the Company prior to the successful completion of the issuance of the 7.0% unsecured convertible bonds of an aggregate principal amount of S\$2,100,000 (the “**Issuance**”) and the placement of 35,000,000 new ordinary shares in the share capital of the Company (the “**Placement**”) on 2 June 2017 and 5 June 2017 respectively.

Company’s Response to SGX Query 1(ii)

As disclosed under notes 19 on page 64 of the Annual Report, this loan is interest free.

Company’s Response to SGX Query 1(iii)

This loan was the aggregate of numerous advances made to the Company over the period from 7 July 2016 to 1 March 2017 whenever the Company encountered short-falls of working capital during the financial year ended 30 June 2017.

Company’s Response to SGX Query 1(iv)

The loan in aggregate was utilised by the Company as general working capital, as set out below:

	Amounts (RMB’000)
GROSS PROCEEDS RAISED	3,618,000
APPLICATION OF PROCEEDS	
Paid staff salaries and directors’ fees (From August 2016 to February 2017)	866,000

Paid office rentals and deposits (From July 2016 to March 2017)	512,000
Paid annual listing fees & additional listing fees (From September 2016 to March 2017)	325,000
Paid outstanding audit fees for the financial year ended 30 June 2016	939,000
Paid legal & professional fees (From August 2016 to May 2017)	579,000
Paid business traveling, other operating & office Expenses (From July 2016 to March 2017)	397,000

SGX Query 2

It was disclosed in the Annual Report that “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 as well as risk management system maintained by the Company that are in place throughout the financial year ended 30 June 2017 is adequate and effective, but warrants further adjustments and improvements”. Please disclose details on:-

- i) What warrants further adjustments and improvements; and
- ii) The further adjustments and improvements.

Company’s Response to SGX Query 2(i)

This comment was made in anticipation of the possible continuous growth in the Company’s newly commenced distribution sales business in China whereby new measures of internal control geared towards the specific nature of such active business activities may be required going forward.

Company’s Response to SGX Query 2(ii)

The Company is currently reviewing and adjusting its internal control focus from a manufacturing based business activity (which involves production and inventory control) to include additional controls in respect of its new distribution sales based business activity (which involves additional logistics and cash flow controls), in light of the differing nature of such businesses.

SGX Query 3

Listing Rule 1207(20) requires an issuer to provide in the annual report a status report on the use of any proceeds arising from any offerings pursuant to Chapter 8 and whether the use of proceeds is in accordance with the stated use and is in accordance with the percentage allocated in the announcements of the issuer. Where there is any material deviation from the stated use of proceeds, the issuer must announce the reasons for such deviation. Please disclose as required.

Company’s Response to SGX Query 3

The Company had, in its announcement released on 16 August 2017 (“**Proceeds Announcement**”), announced that the proceeds in respect of Issuance and the Placement have been fully drawn down and utilised by the Company as general working capital, in accordance with the intended use and in accordance with the percentage allocated in the announcements of the Company. The Company had also provided a breakdown with the specific details on the use of proceeds in the Proceeds Announcement.

SGX Query 4

In the Independent Auditor's Report, it was disclosed that the auditors paid a plant visit located at Pizhou on 12 August 2017 and noted that there were no inventories noted and the machinery had been idle. All books and records cannot be found in the premises. All locks and chains were found to be rusty. The building was run-down and not under occupied conditions. The building remained vacant except for a watchman.

- i) Please provide a status update on the operations of Xuzhou Zhongwei.
- ii) Is Xuzhou Zhongwei still operating? If not, when did its operations terminate and please explain why the operations were terminated; and
- iii) Please explain why there were no updates by the Company on this.

Company's Response to SGX Query 4(i)

Xuzhou Zhongwei still maintains an active business in the sales of its substantial amount of inventory and raw materials. It continues to supply its products to its customers and continues to record revenue of several million RMB per quarter. However, as it still holds substantial amounts of inventory in a separate warehouse in Xuzhou ("**Xuzhou Warehouse**") which is under the control of the representatives of the SME Bond holders and where access to the Company is currently restricted, its plant in Pizhou is not currently holding or producing additional inventory and has currently temporarily halted its production activity as its existing inventory in the Xuzhou Warehouse is sufficient to meet the demands of its customers and as it does not have sufficient funds nor customer demand to finance mass production activities.

Company's Response to SGX Query 4(ii)

Despite the fact that Xuzhou Zhongwei's production operation has slowed down significantly in recent quarters and subsequently further slowed down and has currently temporarily halted after negotiations with the SME Bond holders began, it still continues to record sales and hold inventory, and as such the Company is of the view that Xuzhou Zhongwei is continuing an operating business.

Company's Response to SGX Query 4(iii)

The Company has continually provided updates on Xuzhou Zhongwei in each of its FY2017 quarterly results announcements as well as in both the Company's annual report for 18 months ended 30 June 2016 and the Annual Report. The Company had also provided full disclosure in its Circular dated 10 May 2017 in respect of the significant slowdown of the operations of Xuzhou Zhongwei after negotiations with the SME Bond holders began.

SGX Query 5

On page 58 of the Annual Report, it was disclosed that "(t)here were on-going litigation cases against Xuzhou Zhongwei made by the bondholders as at 30 June 2017. Based on the available public information, there were a total of eighteen reported cases filed against Xuzhou Zhongwei, which includes the application to the Court for Orders of freezing of assets. The SME bond holders reserve their right to take legal action against Xuzhou Zhongwei on the default in payment of the SME bond".

Please:-

- i) Disclose when was this court order;
- ii) Disclose details of the court order;
- iii) Quantify the assets that were frozen;
- iv) Provide the weblinks to these "public information";
- v) Provide details on when were the litigation filings against Xuzhou Zhongwei made; and
- vi) In view of the significance of the amount loaned to Xuzhou Zhongwei, Please explain why the Company did not make an announcement as required under Listing Rule 704(22) and 704(23).

Company's Response to SGX Query 5(i)

At present, the Company is not in possession of the comprehensive details of each of the on-going litigation and court orders in relation thereto as the local management of Xuzhou Zhongwei had obtained consent of the majority of the SME Bond holders to withhold the court applications and had thereafter focused on the on-going negotiations with the SME Bond holders in search of a mutually acceptable solution to the SME Bonds default issue instead of the on-going litigation and court orders. The Company was informed that this approach would be in the best interest of the Company and Ms. Li Ya Xin as the ultimate beneficial shareholders of Xuzhou Zhongwei. The Company was further advised to avoid being directly involved in the individual litigation cases and to await updates from the local management of Xuzhou Zhongwei on the status of the negotiations, as an overly legal and intrusive approach may be detrimental to negotiations and as both the Company and Ms. Li Ya Xin were neither contractual parties nor guarantors to the Xuzhou SME Bonds. The details of the on-going litigation and court orders would be disclosed once the Company receives an update on the same from the local management of Xuzhou Zhongwei.

In light of the lengthy and protracted negotiation process, the Company is also independently engaging a PRC local counsel to help study and provide more comprehensive legal advice on the key issues relating to the Xuzhou Zhongwei SME Bonds. The Company intends to make further announcements disclosing any material updates in relation to the Xuzhou Zhongwei SME Bonds once it has received the relevant advice from its PRC counsel.

Company's Response to SGX Query 5(ii)

As far as the Company has been informed by the local management of Xuzhou Zhongwei and Mr. Huo Wei Sheng, no court orders have been granted by any local court in Xuzhou despite the fact that several isolated applications have been made on.

As stated above, the Company intends to make further announcements disclosing any material updates in relation to the Xuzhou Zhongwei SME Bonds once it has received the relevant advice from its PRC counsel.

Company's Response to SGX Query 5(iii)

As far as the Company has been informed by the local management of Xuzhou Zhongwei and Mr. Huo Wei Sheng, no court orders of freezing assets have so far been granted by any local court in Xuzhou. As such no particular assets have currently been frozen by any court.

However, as disclosed in several past announcements, in order to provide Xuzhou Zhongwei a practical chance of reaching a mutually acceptable commercial solution with the SME Bond holders, following the default in repayment of both the principal and accrued interests thereon, the local management of Xuzhou Zhongwei has agreed that all the major parts of the Xuzhou factory establishment, all valuable assets such as plant and machinery, inventories, major raw materials, cash and bank balances, as well as the books and records of Xuzhou Zhongwei have to be held in joint custody by both the local management of Xuzhou Zhongwei and the SME Bond holders' designated on-site representatives, at a location under the control of the SME Bond holders. This approach would prevent any party from making unauthorized changes, amendments, deletions, alterations and manipulations to such assets and books of records and verifiable evidences of Xuzhou Zhongwei to the disadvantage of the SME Bond holders.

As stated above, the Company intends to make further announcements disclosing any material updates in relation to the Xuzhou Zhongwei SME Bonds once it has received the relevant advice from its PRC counsel.

Company's Response to SGX Query 5(iv)

The relevant weblinks available to the Company are as follows:

- 1) <http://zhixing.court.gov.cn./search/>
- 2) <http://shixin.court.gov.cn/>
- 3) <http://wenshu.court.gov.cn/index/>
- 4) <http://rmfygg.court.gov.cn/>
- 5) <http://www.gsxt.gov.cn/index.html>

- 6) <http://cpquery.sipo.gov.cn/>
- 7) <http://sbj.saic.gov.cn/>

Company's Response to SGX Query 5(v)

At present, the Company is not in possession of the comprehensive details with respect to each of such isolated on-going litigation cases against Xuzhou Zhongwei for the reasons stated in the Company's response to SGX Query 5(i) above. The details of the on-going litigation and court orders would be disclosed once the Company receives an update on the same from the local management of Xuzhou Zhongwei.

In this regard, as stated above, the Company intends to make further announcements disclosing any material updates in relation to the Xuzhou Zhongwei SME Bonds once it has received the relevant advice from its PRC counsel.

Company's Response to SGX Query 5(vi)

As Xuzhou Zhongwei has been reclassified as an associated company, Rules 704(22) and 704(23) are not applicable to Xuzhou Zhongwei as it is not a subsidiary of the Company.

Notwithstanding the above, the Company had also not made specific announcements in respect of each litigation suit as it had been informed that such suits were being withheld pending the outcome of the on-going negotiations between the SME Bond holders and the local management of Xuzhou Zhongwei (mainly led by Mr. Huo Wei Sheng who is the current legal representative of Xuzhou Zhongwei and the only representative designated by Xuzhou Zhongwei's ultimate shareholders acceptable to the SME Bond holders in aggregate).

The Company had kept its shareholders continually informed of such negotiations, which it had continually disclosed in multiple announcements. Further, the Company was informed by Mr. Huo that the isolated applications for a court order were gestures made several small SME Bond holders who thought that their legal rights will be established and confirmed by such applications; however, unless and until a final outcome of the on-going negotiation between the parties concerned has been reached, no court orders for asset freezing will actually be granted by the local Court.

As stated above, the Company intends to make further announcements disclosing any material updates in relation to the Xuzhou Zhongwei SME Bonds once it has received the relevant advice from its PRC counsel.

SGX Query 6

On page 64 of the Annual Report, it was disclosed that the "non-trade amount due to China Natural Resources Development Limited represent advances which is unsecured, interest-free and repayable in two tranches. The first payment of RMB 1,736,000 is repayable by 20 July 2018 and the second payment of RMB 5,408,000 is repayable by 18 September 2018. A penalty of 10% per annum is imposed should the amounts not be settled by repayment dates. The amount is repayable at the discretion of China Natural Resources Development Limited giving a one-month notice to the Company".

- i) Please provide details on who China Natural Resources Development Limited is. What is the business of this company and why did they lend money to the Company;
- ii) Please provide details on whether China Natural Resources Development Limited has any relationship with the Company's past or present Directors or substantial shareholders;
- iii) What is the purpose of these loans?
- iv) Please disclose the use of these loans and provide a breakdown if these have been used for working capital; and
- v) Please provide details on how the Company intends to fund the repayment of RMB 1,736,000 which is repayable by 20 July 2018 and RMB 5,408,000 which is repayable by 18 September 2018.

Company's Response to SGX Query 6(i)

China Natural Resources Development Limited is a privately owned company incorporated in Hong Kong principally engaged in the investment in natural resources related project in China.

China Natural Resources Development Limited has strong intentions to enter into business co-operation with the Company with respect to the Company's newly commenced distribution sales business in Shanghai and, as Shanghai Daiyoulong holds a significant amount of RMB bank deposits inside China, China Natural Resources Development Limited has ultimately agreed to assist the Company in resolving its short term funding difficulties outside of China.

Company's Response to SGX Query 6(ii)

To the best of the Company's knowledge and understanding, China Natural Resources Development Limited has no relationship with the Company's past or present Directors, substantial shareholders and/or senior officers.

Company's Response to SGX Query 6(iii)

The purpose of these loans was to provide the Company with temporary financing of its working capital needs, in particular at times of financial difficulties of the Company before the successful completion of the Issuance and the Placement in June 2017.

Company's Response to SGX Query 6(iv)

The loan in aggregate was utilised by the Company as general working capital, as set out below:

	Amounts (RMB'000)
GROSS PROCEEDS RAISED	7,144,000
APPLICATION OF PROCEEDS	
Paid staff salaries & directors' fees (From March 2017 to June 2017)	677,000
Paid staff salaries & directors' fees (From August to October 2017)	957,000
Paid April & May 2017 office rental	572,000
Paid August to October 2017 office rental	755,000
Paid renovation charges for the new office in China Resources Building (From March 2017 to May 2017)	1,333,000
Paid for purchase of new office furniture and computer equipment (From March 2017 to May 2017)	880,000
Paid for the purchase of a new motor vehicle in March 2017	719,000
Paid audit fees (partial) for the financial year ended 30 June 2017	289,000
Paid annual listing fees & additional listing fees (From April 2017 to October 2017)	112,000
Paid business traveling, other	326,000

operating & office Expenses
(From April 2017 to June 2017)

Paid business traveling, other operating & office expenses (From July 2017 to October 2017)	524,000
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Company's Response to SGX Query 6(v)

The Company intends to fund the repayment of RMB 1,736,000 which is repayable by 20 July 2018 and RMB 5,408,000 which is repayable by 18 September 2018 to China Natural Resources Development Limited as follows:

- A) Pursuant to the Company's announcement made on 8 August 2017 and subject to obtaining relevant approval from the SGX-ST and shareholders at a Special General Meeting, the Company intends to raise substantial working capital fund through an overseas placement exercise.
- B) As set out in the Company's announcement made on 31 July 2017, the Company is currently exploring the disposal of its shareholdings in the Rich Circles Group. Should a definitive agreement be entered into, subject to obtaining relevant approval from the SGX-ST and shareholders at a Special General Meeting, the Company anticipates that the sales proceeds should be sufficient to fund the repayment of its outstanding liabilities.
- C) Pursuant to having obtained shareholders' for an enhanced rights issue mandate in the Company's 2017 annual general meeting held on 31 October 2017, the Company is currently exploring suitable fund-raising exercises, which may include further placements or a rights issue to existing shareholders to raise significant amount of additional working capital for the Company.
- D) The Company intends to fund repayment through positive cash flow generated from the Company's newly commenced distribution sales business in China.
- E) The Company is also confident that it will be able to convince China Natural Resources Development Limited to extend the repayment dates for a reasonable period of time upon respective maturity.

SGX Query 7

It was also disclosed that the "non-trade amount due to Wong Chon Chong represent advances which is unsecured, interest-free and repayable by 30 April 2018. A penalty of 10% per annum is imposed should the amounts not be settled by repayment dates".

- i) Please disclose who Wong Chon Chong is, how is he related to the Company and why did he lend money to the Company;
- ii) Please disclose the use of these loans and provide a breakdown if these have been used for working capital; and
- iii) Please provide details on how the Company intends to fund the repayment of RMB 1,302,000 by 30 April 2018.

Company's Response to SGX Query 7(i)

Mr. Wong Chon Chong is a business associate introduced to the Company by Mr. Wang Huai Dong, the Company's previous Non-executive Chairman, who had expressed strong personal interest to enter into business cooperation with the Company with respect to the media and entertainment business once the Company intended to build and develop back in September 2016. Accordingly, he was willing to lend certain amount of working capital to the Company in order to facilitate the Company's

commencement of its media and entertainment projects back in late December 2016 in the hope that he would be able to partipate in future investments as a strategic investor.

Company's Response to SGX Query 7(ii)

The amount of these loans were primarily utilised for (i) the investment of approximately HK\$350,000 in the cooperative event held with G Music (HK) Limited (ii) the investment of approximately HK\$400,000 in the cooperative event held with Fight Factory Gym Limited; and (iii) in the payment of approximately HK\$750,000 to acquire certain patent rights from Focus Licensing Ltd. for the development of a long-term amusement and entertainment project with other Hong Kong-based business partners.

Company's Response to SGX Query 7(iii)

The Company intends to fund the repayment of RMB 1,302,000 which is repayable by 30 April 2018 as follows:

- A) Pursuant to the Company's announcement made on 8 August 2017 and subject to obtaining relevant approval from the SGX-ST and shareholders at a Special General Meeting, the Company intends to raise substantial working capital fund through an overseas placement exercise.
- B) As set out in the Company's announcement made on 31 July 2017, the Company is currently exploring the disposal of its shareholdings in the Rich Circles Group. Should a definitive agreement be entered into, subject to obtaining relevant approval from the SGX-ST and shareholders at a Special General Meeting, the Company anticipates that the sales proceeds should be sufficient to fund the repayment of its outstanding liabilities.
- C) Pursuant to having obtained shareholders' for an enhanced rights issue mandate in the Company's 2017 annual general meeting held on 31 October 2017, the Company is currently exploring suitable fund-raising exercises, which may include further placements or a rights issue to existing shareholders to raise significant amount of additional working capital for the Company.
- D) The Company intends to fund repayment through positive cash flow generated from the Company's newly commenced distribution sales business in China.
- E) In light of the current performance of the Company's new distribution business, the management intends to evaluate its available options to dispose its existing media and entertainment business to Mr Wong and/or other interested investors.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
6 November 2017