

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON RESIGNATION OF ONG KIAN GUAN, ARBITRATION PROCEEDS & AGREED UPON PROCEDURES ON CASH AND BANK BALANCES

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcements on 28 March 2014 on (i) the cessation of Ong Kian Guan as Independent Director who is an Audit Committee Member of the Company; and (ii) the arbitration proceeds & agreed upon procedures on cash and bank balances. 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 29 March 2014 (each, a “**SGX Query**”) as follows:

SGX Query 1

We refer to the announcement on the Cessation of Ong Kian Guan as an Independent Director of the Company. In the announcement, it was disclosed that the resignation was due to “Differing views with management as to the handling of matters relating to and resulting from legal claims from customers.” The Company disclosed that “Ong Kian Guan is of the view that a reputable Singapore Lawyer (with experiences in PRC) be engaged to advise the Company on the NOA and related settlement agreements, legality of the arbitration proceeding and implications of the arbitration judgement.” It was further disclosed that “The Board had since requested its Singapore lawyer to engage a Chinese law firm to review the arbitration proceedings and provide its advice to the Board.” In view of this, please advise:-

- (i) As the Board had since requested its Singapore lawyer to engage a Chinese law firm to review the arbitration proceedings and provide its advice to the Board, please elaborate on what the “differing views with the management as to the handling of the matters” are in relation this matter.
- (ii) The Singapore lawyer referred to in the Company’s announcement that has been appointed by the Company in relation to this matter and what is the status of the Singapore lawyer engaging the PRC lawyer. Please also provide the name of the PRC lawyer.

Company’s Response to SGX Query 1(i)

The scope of the proposed review could not be agreed upon. Management was also of the view that a Singapore lawyer may not be qualified to advise on the arbitration proceedings, which had taken place in the PRC. The Board has relooked this issue in its Board meeting held on 26 March 2014, and has since taken active steps to seek suitable legal advice, such as requesting to be referred to a suitably-qualified PRC lawyer.

Company’s Response to SGX Query 1(ii)

The Company had requested for a referral from Lee & Lee, who has been assisting the Company on ad hoc queries. Lee & Lee is in the process of obtaining suitable referrals for the Company’s consideration, and the Company will provide the SGX-ST with an update as and when the mandate has been formally determined.

SGX Query 2

It was disclosed that “Ong Kian Guan is also of the view that the Company should call on Mr. Lin Daoqin’s (“**Mr. Lin**”) undertakings to provide RMB100 million financial support.” Please disclose:-

- (i) Ong Kian Guan’s reasons for taking the view that the Company should call on Mr. Lin’s undertaking to provide the RMB100 million financial support.
- (ii) Why did the Board take a different view from Ong Kian Guan and provide the basis for their differing views.
- (iii) The Audit Committee’s view in respect of Ong Kian Guan’s request.

Company’s Response to SGX Query 2(i)

Mr. Ong Kian Guan was concerned about the strength of Mr. Lin’s verbal undertaking to provide the RMB 100 million financial support. As such, he proposed that Mr. Lin place 20% to 30% of the RMB 100 million into an escrow account of the Company, so that the Company may immediately draw down on these amounts if required. The Company had explored this option with Mr. Lin but was of view that it was not required at this stage as the Company did not face an immediate need for such financial support.

Company’s Response to SGX Query 2(ii)

The Board was of the view that placing 20% to 30% of the RMB 100 million into an escrow account of the Company was not required at this stage for the following reasons:

- (1) The Company has made full provisions for the compensations to the Claimants, and these amounts have been affirmed by the arbitration proceedings.
- (2) Although the current financial situation of the Company is challenging, adequate provisions have been made and the Company is not in any immediate need for additional financial support from Mr. Lin.

However, the Board noted that additional steps to strengthen the undertaking by Mr. Lin were necessary. As such, the Board had taken the following additional measures:

- (1) To formalize Mr. Lin’s verbal undertaking, the Board had arranged for the preparation and execution of an English language deed of undertaking to provide loans of up to RMB 100 million governed by Singapore law (“**Singapore Deed**”) dated 1 January 2014.
- (2) To ensure that Mr. Lin would have sufficient financial resources to fulfill his obligations under the undertaking, the Board has also requested for a Chinese lawyer to prepare a separate deed to be governed by PRC law (“**PRC Deed**”), and is exploring the option of extending the PRC Deed to capture assets of Mr. Lin that would be worth no less than the value of the undertaking. In the event that Mr. Lin does not have adequate cash resources to fulfill his obligations under the undertaking, the Company will then be able to sell and/or mortgage his assets.

Company's Response to SGX Query 2(iii)

The Audit Committee is of the view that the compensations to the Claimants have been provided for and that there is no immediate urgency to call upon Mr. Lin's undertaking at this stage by requesting for monies to be deposited into an escrow account. However, the Audit Committee will continually evaluate the financial support required by the Company and will not hesitate to call upon Mr. Lin's undertaking and/or exercise its rights and remedies under the Singapore Deed and/or PRC Deed (when executed) should this be required in the future.

SGX Query 3

It was disclosed that "The Board had engaged a Chinese lawyer to prepare a Deed to incorporate assets of Mr. Lin ("**Deed**")", so that the Company can draw on his assets to fulfill his undertaking to the Company up to RMB 100 million." Please advise on the following:

- (i) We note the disclosure in the Announcement that a Chinese lawyer has just been engaged to prepare the Deed. However, on page 11 of the Company's Circular dated 4 November 2013 ("**Circular**") it was stated that Mr. Lin has provided an undertaking to provide loans of RMB100 million. In this respect, please advise whether the information in the Circular is accurate and provide basis for the Company's views.
- (ii) Please provide details of the Deed, including but not limited to the period that this will be valid, the assets that can be drawn, the conditions under which the financial support can be drawn and all other material terms of the Deed, the basis and value of the assets and how the financial position of the Company can be supported. Please quantify where possible.
- (iii) It was disclosed in the Circular that Mr. Lin "has provided an undertaking to the Company to provide, on demand by the Company, loans of up to RMB 100,000,000 to support the financial position of the Company." It did not disclose that this would be in the form of "assets" as currently disclosed by the Company. Please elaborate why this was not disclosed in the Circular.
- (iv) Noting that Mr. Lin is providing assets under the Deed, please elaborate how this arrangement will work to provide financial support to the Company and what are the obligations and limitations of the Company towards the return of the same assets to Mr. Lin in the event such assets, if used as security, are sold by the banks should there be a default in repayment.
- (v) The Board's views why the Deed of financial support through the assets arrangement is acceptable to fulfill Mr. Lin's undertaking to provide loans to the Company on demand.
- (vi) To disclose whether Audit Committee agrees with the Board's views and the basis for the Audit Committee's views.

Company's Response to SGX Query 3(i)

The Company is of the view that the information in the Circular is accurate.

The Company had made the following disclosure in the Circular:

"Mr Lin Daoqin, the Executive Chairman and Chief Executive Officer of the Company, has provided an undertaking to the Company to provide, on demand by the Company, loans of up to RMB 100,000,000 to support the financial position of the Company. The terms of such loans will be finalized and agreed between Mr Lin and the Company as and when such loans are required by the Company. As such loans will constitute interested persons transactions under the listing rules of the SGX-ST, the relevant disclosures will be made and the relevant approvals (including but not limited to shareholders' approval) for such loans and the terms thereof will be obtained, where necessary, in the event that such loans are provided by Mr Lin."

At the date of the Circular, Mr. Lin had provided a verbal undertaking to the Company to provide loans of up to RMB 100 million to support the financial position of the Company.

As stated in our response to SGX Query 2(ii) above, the Company had decided to formalize this understanding by the preparation and execution of the Singapore Deed. In addition, the Board has also requested for a Chinese lawyer to prepare a PRC Deed, and is exploring the option of extending the PRC Deed to capture certain assets of Mr. Lin.

Company's Response to SGX Query 3(ii)

The terms of the PRC Deed are still being discussed as the Company is currently exploring the option of extending this to capture certain assets of Mr. Lin that are worth no less than the amount of the undertaking.

The key terms of the Singapore Deed are as follows:

- (1) Mr. Lin shall provide to the Company, on demand by the Company, loans (the "**Loans**") of up to an aggregate amount of RMB 100 million to support the financial position of the Company.
- (2) Upon any demand for the Loans by the Company, Mr. Lin shall execute definitive loan agreement(s), subject to all governmental, regulatory and third party approvals, consents and/or authorisations being obtained, if necessary (including the approval of the shareholders of the Company and the SGX-ST).

Company's Response to SGX Query 3(iii)

At the date of the Circular, it was not contemplated that the undertaking by Mr. Lin would extend to his assets. This is currently being discussed between the Company and Mr. Lin.

Company's Response to SGX Query 3(iv)

The terms of the PRC Deed are still being discussed as the Company is still exploring the option of extending this deed to capture certain assets of Mr. Lin. The Company will seek suitable legal advice on the enforceability of the PRC Deed and the obligations and limitations of the Company in respect thereof.

Company's Response to SGX Query 3(v)

The contemplated financial support in respect of Mr. Lin's assets is intended to serve as collateral in respect of his earlier undertaking to provide loans of up to RMB 100 million. The terms of the PRC Deed are still being discussed, and the Company is exploring the option of extending this deed to capture certain assets of Mr. Lin, to enable the Company to sell and/or mortgage these assets in the event that Mr. Lin is unable to fulfill his obligations under his undertaking to provide the loans of up to RMB 100 million to the Company.

Company's Response to SGX Query 3(vi)

The Audit Committee agrees with the Board's views that it is currently not necessary to require Mr. Lin to place monies into an escrow account of the Company. The Audit Committee also believes that the execution of the Singapore Deed is prudent and in the best interest of the Company, and that the PRC Deed (when finalized and executed) would strengthen Mr. Lin's earlier undertaking to provide loans of up to RMB 100 million.

SGX Query 4

As it is essential for the IDs to step up to the occasion to discharge their duties effectively to resolve serious problems facing the Company, please elaborate whether the Board had tried to persuade Ong Kian Guan to stay on.

Company's Response to SGX Query 4

On 4th February 2014, Mr. Ong had called for a meeting with the Chairman, Mr. Neo Chee Beng, and the Chief Financial Officer, Mr. Ng Poh Khoon. During that meeting, Mr. Ong had indicated that he faced a conflict of interest and wished to resign from his position as an Independent Director of the Company. This was then communicated to all the Directors. On 27 February 2014, Mr. Ong had asked the Chairman if he should indicate that he will not seek re-election to the Board, but the Chairman had asked him not to proceed with this as he hoped that the issues highlighted by Mr. Ong could be satisfactorily resolved.

Further to the above, the Company had also commenced search for a replacement candidate with the necessary experience and with the available time commitment to address the issues faced by the Company. The Company had then communicated the potential appointment of a new Independent Director to Mr. Ong.

During the Board meeting on 26 March 2014, despite the new incoming independent director, the Board had requested a discussion with Mr. Ong after the Board meeting for Mr. Ong to defer his resignation because his contributions were valued. However, Mr. Ong had still decided to proceed with his resignation.

SGX Query 5

We refer to the Company's announcement of 28 March 2014 ("**Arbitration Announcement**") disclosing that the Company's wholly-owned subsidiary, Fujian Qianfeng Textile Technology Co., Ltd ("**Fujian Qianfeng**"), was served with notices of arbitration on 10 March 2014 by 8 Claimants. Please advise why this information was not announced promptly on 10 March 2014 when the Board had noted that this arbitration involved a very significant claim.

Company's Response to SGX Query 5

The Board was only informed of the arbitration proceedings on the evening of 12 March 2014. The Board noted that the amounts claimed in respect of the arbitration proceedings were not contrary to the figures provided for in the financial statements of the Company. Additionally, it was informed that the proceedings would be concluded by the next day, and was of view that it would be more meaningful to announce the arbitration claims when the results have been finalized.

Upon the finalization of the results, the Board was of the view that the decision of the Arbitrators did not constitute significant litigation that would materially affect the Company as: (i) the settlement amount payable has already been provided for in the financial statements of the Company; (ii) the affirmation of the terms of the settlement agreements will not result in any additional material impact on the financial position of the Company; and (iii) the amount of arbitration fees payable by Fujian Qianfeng is not considered material.

SGX Query 6

It was disclosed in the Company's Circular dated 4 November 2014 that "RMB161,500,000 may be utilised by the Claimants to deduct from future sales of fabric materials over the next five years, up till 31 July 2018" and that approximately RMB2 million owing by the Claimants to the Company will be set off against the compensation amounts payable to the Claimants. In the Arbitration Announcement, the Company disclosed that "The Claimants had alleged that Fujian Qianfeng had breached the terms of the Settlement Agreements by not fulfilling their obligations in the provisions of products, which was intended to set-off against the aggregate amount of RMB86,500,952." Please reconcile these figures and provide details of when and how the Claims have been settled to-date and how such claims have been classified in the Company's Income and cashflow statements and Balance Sheet.

Company's Response to SGX Query 6

The amount of compensation which remains unpaid is equivalent to RMB86.5 million (calculated based on the remaining RMB161.5 million less (i) the further 8% discount of RMB36.9 million received from the Claimants as reflected in the Company's third quarter financial results announced on 12 November 2013; and (ii) further partial settlements amounting to RMB38.1 million ("**Partial Settlement Amounts**"), which were repaid by the Company through setting-off the Partial Settlement Amounts against trade receivables from the Claimants for sales made to the Claimants until 28 February 2014).

Please refer to the table below for a detailed breakdown of the numbers:

| Claimants | Total claims (RMB'000) | Cash settlement (RMB'000) | Further discount (RMB'000) | Balance outstanding (RMB'000) | Offset against T/R @ 31 December 2013 (RMB'000) | Balance outstanding @ 31 December 2013 (RMB'000) | Offset against T/R @ 28 February 2014 (RMB'000) | Balance outstanding prior to Arbitration proceeding (RMB'000) |
|---|------------------------|---------------------------|----------------------------|-------------------------------|---|--|---|---|
| Dongguan Jiarui Shoe Material Co., Ltd | 24,000 | 15,000 | 1,920 | 7,080 | 409 | 6,671 | - | 6,671 |
| Dongguan Jingfeng Fiber Technology Co., Ltd | 50,000 | 35,000 | 4,000 | 11,000 | 8,490 | 2,510 | 127 | 2,383 |
| Dongguan Yuanzhan Textile Co., Ltd | 130,000 | 90,000 | 10,400 | 29,600 | 10,988 | 18,612 | 152 | 18,460 |
| Putian Xianglong Shoes and Clothes Co., Ltd | 45,000 | 30,000 | 3,600 | 11,400 | 1,287 | 10,113 | - | 10,113 |
| Fuqing Zhonglian gxingye Shoe Material Co., Ltd | 90,000 | 60,000 | 7,200 | 22,800 | 2,631 | 20,169 | 24 | 20,145 |
| Fuzhou Fule Shoe Material Co., Ltd | 50,000 | 30,000 | 4,000 | 16,000 | 2,171 | 13,829 | 261 | 13,568 |
| Haining Hanchen Textile Co., Ltd | 27,500 | 15,000 | 2,200 | 10,300 | 3,053 | 7,247 | 29 | 7,218 |
| Jinjiang Xuri Textile Co., Ltd | 45,000 | 25,000 | 3,600 | 16,400 | 8,421 | 7,979 | 36 | 7,943 |
| | 461,500 | 300,000 | 36,920 | 124,580 | 37,450 | 87,130 | 629 | 86,501 |

SGX Query 7

The Company disclosed that PricewaterhouseCoopers LLP has been appointed to review the cash and bank balances of the Company's key subsidiaries. Please disclose the date of appointment, status of the review and whether the report has been issued. Please provide an update on the findings to date and when the review is expected to complete. Please announce the PricewaterhouseCoopers LLP report when the report is issued.

Company's Response to SGX Query 7

PricewaterhouseCoopers LLP ("PwC") was appointed on 28 October 2013. Due to the changes in the finance personnel of the Company, as well as the new control measures undertaken by the Company, PwC is still in the process of its review. The Company will update shareholders as soon as PwC completes its review.

SGX Query 8

It was disclosed in the Arbitration Announcement that “The Board has also taken active steps to seek suitable legal advice in respect of the Settlement Agreements”. Please advise what active steps were taken by the Board when the Settlement Agreement was signed.

Company’s Response to SGX Query 8

As disclosed in the Circular, on 15 June 2013, the Company had appointed a PRC legal advisor, Fujian Junli Law Firm (“**PRC Legal Advisor**”), and a financial advisor, 福建鑫玉融会计师事务所有限责任公司 (“**Financial Advisor**”), to render a legal opinion and a financial report in respect of the compensation claims. The PRC Legal Advisor and the Financial Advisor had advised the Company to enter into the settlement agreements with the Claimants in lieu of litigation. As stated in our response to SGX Query 1(i) above, the Company is in the process of engaging a PRC law firm to assess the risks relating to the Settlement Agreements and the arbitration rulings, and has sought for referrals from Lee & Lee.

By Order of the Board

Lin Daoqin
Executive Director and Chief Executive Officer
31 March 2014