

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 12 November 2014 on the Unaudited Third Quarter Financial Statement and Dividend Announcement for the Nine Months Ended 30 September 2014 (“**Q3 2014**”). Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the Results Announcement. 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 20 September 2014 and 21 September 2014 (each, a “**SGX Query**”) as follows:

SGX Query 1

On page 3 of the Results Announcement, we note that ‘Property, plant and equipment’ increased by 404.3% from RMB 47.176 million to RMB 237.925 million when Revenue increased by 357.5%. Please provide the following information:-

- a) reasons for the increase
- b) breakdown of major items contributing to the increase.

Company’s Response to SGX Query 1(a)

As explained in Note 8(b) on page 14 of the Results Announcement, the ‘Property, plant and equipment’ increased from RMB47.2 million as at 31 December 2013 to RMB238 million as of 3Q2014. The increase of RMB190.8 million or 404.3% was due mainly to the consolidation of property, plant and equipment amounting to RMB197.6 million of our New Materials Business (i) as a result of our acquisition of the CCMH Group by our associated company, Rich Circle, on 27 June 2014, and (ii) following the change to the board composition of CCMH and Xuzhou Zhongsen on 7 August 2014. In contrast, the property, plant and equipment for the Fabric Business decreased by RMB6.8 million or 14.4% from RMB47.2 million as at 31 December 2013 to RMB40.4 million due to a depreciation charge provided during this period.

Company’s Response to SGX Query 1(b)

The breakdown of the major items contributing to the increase of ‘Property, plant and equipment’ from our New Materials Business as of 3Q2014 are as follows:-

<u>Category</u>	<u>RMB’million</u>
Buildings	62.3
Machinery	134.8
Office equipment	0.3
Motor vehicle	0.2
Total	<u>197.6</u>

SGX Query 2

On page 3 of the Results Announcement, we note that 'Inventories' increased by 1051.9% from RMB 12.041 million to RMB 138.704 million when Revenue increased by 357.5%. Please provide the following information:-

- a) reasons for the increase
- b) breakdown of major items contributing to the increase
- c) inventory turnover days for current period as compared to previous corresponding period and elaborate on material variances, if any
- d) any risk of inventory obsolescence or diminution in value and basis for views

Company's Response to SGX Query 2(a)

As explained in Note 8(b) on page 14 of the Results Announcement, the 'Inventories' increased from RMB12 million as at 31 December 2013 to RMB138.7 million as of 3Q2014. The increase of RMB126.7 million or 1055.8% was due mainly to the consolidation of inventories amounting to RMB130.3 million of our New Materials Business (i) as a result of our acquisition of the CCMH Group by our associated company, Rich Circle, on 27 June 2014, and (ii) following the change to the board composition of CCMH and Xuzhou Zhongsen on 7 August 2014. In contrast, 'Inventories' for the Fabric Business decreased by RMB3.6 million or 30% from RMB12.0 million as at 31 December 2013 to RMB8.4 million due to measures implemented to reduce working capital tied up in the inventories of the Fabric Business.

Company's Response to SGX Query 2(b)

The breakdown of the major items contributing to the increase of 'Inventories' from our New Materials Business as of 3Q2014 are as follows:-

<u>Category</u>	<u>RMB'million</u>
Finished goods	44.3
Work-in-progress	29.0
Raw materials	57.0
Total	<u>130.3</u>

Company's Response to SGX Query 2(c)

The average inventory turnover days, for Fabric Business, has decreased to 21 days for 3Q2014 as compared to 38 days for the financial year ended 31 December 2013. The average inventory turnover days for New Materials Business is 144 days for 3Q2014.

Company's Response to SGX Query 2(d)

The ageing analysis of inventories for our New Materials Business as of 3Q2014 are as follows:-

<u>Category</u>	<u>RMB'million</u>
Less than 60 days	13.1
61 days to 120 days	65.7
121 days to 180 days	52.5
	<u>130.3</u>

SGX Query 3

On page 3 of the Results Announcement, we note that 'Trade payables' increased by 386.2% from RMB 24.496 million to RMB 119.097 million when Cost of Sales increased by 263.3%. Please provide the following information:-

- a) reasons for the increase
- b) breakdown of major items contributing to the increase

Company's Response to SGX Query 3(a)

As explained in Note 8(b) on page 15 of the Results Announcement, the trade payable increased from RMB24.5 million as at 31 December 2013 to RMB119.1 million as of 3Q2014. The increase of RMB94.6 million or 386.1% was due mainly to the consolidation of trade payables amounting to RMB91.2 million of our New Materials Business (i) as a result of our acquisition of the CCMH Group by our associated company, Rich Circle, on 27 June 2014, and (ii) following the change to the board composition of CCMH and Xuzhou Zhongsen on 7 August 2014. In contrast, trade payable for the Fabric Business increased by RMB3.4 million or 13.9% from RMB24.5 million as at 31 December 2013 to RMB27.9 million due to slower payments during the period.

Company's Response to SGX Query 3(b)

The trade payables of the New Materials Business relates to the amounts owing to suppliers mainly for the supplies of raw materials, namely magnesium oxide and chloride for the manufacturing of our products. The ageing analysis for the trade payables is as follows:

<u>Category</u>	<u>Percentage</u>
Less than 60 days	15
61 days to 90 days	20
91 days to 120 days	35
121 days to 180 days	20
More than 180 days	10
	<hr/>
	100

SGX Query 4

On page 3 of the Results Announcement, we note that 'Other payables and accruals' increased by 532.3% from RMB 22.979 million to RMB 145.289 million when Cost of Sales increased by 263.3%. Please provide the following information:-

- a) reasons for the increase
- b) breakdown of major items contributing to the increase

Company's Response to SGX Query 4(a)

As explained in Note 8(b) on page 15 of the Results Announcement, the 'Other payables and accruals' increased from RMB23.0 million as at 31 December 2013 to RMB145.3 million as of 3Q2014. The increase of RMB122.3 million or 531.7% was due mainly to the consolidation of 'Other payables and accruals' amounting to RMB111.4 million of our New Materials Business as a result of (i) as a result of our acquisition of the CCMH Group by our associated company, Rich Circle, on 27 June 2014, and (ii) following the change to the board composition of CCMH and Xuzhou Zhongsen on 7 August 2014. In contrast, the

'Other payables and accruals' for the Fabric Business increased by RMB11.0 million or 48% from RMB23.0 million as at 31 December 2013 to RMB33.9 million due to accruals made in respect of the corporate and statutory expenses.

Company's Response to SGX Query 4(b)

The breakdown of the major items contributing to the increase of 'Other payables and accruals' from our New Materials Business as of 3Q2014 are as follows:-

<u>Category</u>	<u>RMB'million</u>
Deposits	10.9
Accrued expenses	28.4
Other payables	53.2
Others	18.9
Total	<u>111.4</u>

SQX Query 5

Please provide the following information in relation to page 14 "Investment in associated company":-

- a) "... the Company had on 12 June 2014 acquired the 49% stake in its associated company, Rich Circles for US\$4,900, pursuant to a joint venture with Li Yaxin".
 - (i) What are the respective roles of the Joint Venture partners?
 - (ii) What are the terms of the Joint Venture?

- b) "On 7 August 2014, the Company announced a change to the board composition of CCMH and Xuzhou Zhongsen to enable the Company to have majority control over the operations of CCMH and Xuzhou Zhongsen. Therefore the results of RC Group have been consolidated into the Group's financial statements".
 - (i) Other than the Board of Directors, how is the Company in control of CCMH and Xuzhou Zhongsen and operations of CCMH and Xuzhou Zhongsen with 49% stake?
 - (ii) Who is the legal representative of CCMH and Xuzhou Zhongsen and its subsidiaries? If the Company management is not the legal representative, please explain how the Company can have control of CCMH and Xuzhou Zhongsen?
 - (iii) If the Company management is the legal representative, please confirm whether an announcement pursuant to Rule 704(11) has been made.
 - (iv) Have the auditors agreed with the accounting statement? What is the auditors' view to consolidate the results of RC Group into the Group's financial statements.

- c) "Further to the acquisition of 100% in CCMH by Rich Circles on 18 June 2014, the Company had extended a loan of RMB 49 million to Rich Circles".
 - (i) What are the repayment terms of the loan and when is the loan likely to be repaid?

Company's Response to SGX Query 5(a)

(i) Roles of the Joint Venture Parties

Under the shareholders' agreement dated 12 June 2014 between the Company, Li Yaxin and Rich Circles Enterprise Limited ("**SHA**"), Li Yaxin has the right to appoint majority of directors to the Board of Rich Circles and maintain operational and management control over Rich Circles and its subsidiaries. However, further to subsequent negotiations and discussions between the parties, Li Yaxin intends to further her investment in Rich Circles as a purely financial advisor. As such, the management and operation of Rich Circles and its subsidiaries will be controlled by the Company.

(ii) Terms of the Joint Venture

Under the terms of the SHA:

1. Each of the Company and Li Yaxin has a right to appoint one director to the board of Rich Circles per each 20% shareholding interest in Rich Circles.
2. For as long as the Company holds at least 49% of the issued shares in Rich Circles, it shall have the right to appoint and maintain 2 natural persons as a director of CCMH.
3. The quorum for board meetings shall be a director appointed by the Company and a director appointed by Li Yaxin.
4. The quorum for shareholders meetings shall be Li Yaxin and the Company.
5. The Board may not pass resolutions in respect of certain reserved matters without the consent of the director appointed by the Company.
6. The shareholders may also not pass resolutions in respect of certain reserved matters without the consent of the Company.

Further to the above, the joint venture parties have informally agreed that the management and operation of Rich Circles and its subsidiaries will be controlled by the Company.

Company's Response to SGX Query 5(b)

(i) Control of CCMH

Beside having a majority of Directors appointed to the board of Rich Circles, the board has implemented policies whereby all major and material decisions relating to the financial and operational aspects of Rich Circles and its subsidiaries will be approved by such board. The Chief Financial Officer of the Company, Ng Poh Khoo, is also the Chief Financial Officer of Rich Circles and its subsidiaries.

(ii) Legal representative of CCMH and Xuzhou Zhongsen and its subsidiaries

Rich Circles and CCMH do not have legal representatives as they are incorporated in the British Virgin Island and Hong Kong respectively, The legal representatives for Zhongchuan (Xuzhou) Construction Material Co. and Xuzhou Zhongsen are Huo Weisheng and Zhou Yingming respectively. The control exercised over Rich Circle and its subsidiaries by the Company is explained in our response 5(b)(i) above.

(iii) Rule 704(11)

The legal representatives of Zhongchuan (Xuzhou) Construction Material Co. and Xuzhou Zhongsen are not from the Management of the Company.

(iv) Legal representative of CCMH and Xuzhou Zhongsen and its subsidiaries

The Company had on August 2014 engaged in discussions with its auditors, Foo Kon Tan Grant Thornton LLP, on the accounting treatment of Rich Circle and its subsidiaries. The auditors have agreed with the approach in respect of the accounting treatment adopted by the Company. The auditors have also agreed with the consolidation of the results of RC Group into the Group's financial statements.

Company's Response to SGX Query 5(c)

The interest of 7% per annum and the outstanding amount of the loan shall be repaid on such date falling 2 years from 18 June 2014, being the date of the loan agreement. The Company may, by giving 10 business days notice in writing to Rich Circles, demand early repayment of the interest and the outstanding amount of the loan.

SGX Query 6

Paragraph 9 of the Results Announcement requires the Company to comment whether the current results are in line with the Company's commentary in Paragraph 10 of 2Q FY2014 results announcement. Please provide.

Company's Response to SGX Query 6

The Company has made the following disclosure in paragraph 10 of the 2Q FY2014 results announcement:

"The Company will continue to undertake a strategic review to examine the options regarding the restructuring of its business. Given the negative operating cash flow in the first half of the year and the Group's current cash position, the Group's continuing status as a going concern is dependent on the following, which should be addressed in a timely fashion: outcome of this strategic review, the restructuring of the business, the performance of newly acquired business of China Construction Material (Hong Kong) Limited (CCMH) and the completion of the proposed placement by the Company of 100,000,000 new ordinary shares in the capital of the Company as announced by the Company on 15 August 2013 and 1 November 2013.

The Company had on 18 June 2014 through its 49% owned associated company Rich Circles Enterprise Limited, completed the acquisition of 100% of the issued and paid up share capital of CCMH. As announced by the Company on 7 August 2014, the Company had on 6 August 2014 appointed Neo Chee Beng and Yuan Limin to the Board of CCMH and its 100% owned operating unit Xuzhou Zhongsen and has the majority control of the Board of both CCMH and Xuzhou Zhongsen. The appointments will enable the Company to have greater control over the operations of the newly acquired business. With the acquisition of CCMH, the Company is cautiously optimistic that this acquisition will contribute positively to the financial position of the Company and its subsidiaries."

The Company did not make a prospect and forecast statement in the above disclosure and had merely stated the facts/events that had been duly announced in the SGXnet.

SGX Query 7

On page 16, paragraph 10, we note the statement “We are cautiously optimistic that this new business will continue to contribute positively to the financial position of the Company and its subsidiaries”. Please provide the following information:-

- a) Details of projects, status of projects and basis of the above statement.
- b) Details on outlook for the fabric business.

Company’s Response to SGX Query 7(a)

The Company is unable to disclose details of its projects and the current status of these as doing so will put the Company in an competitively disadvantageous situation. The above statement was made after careful consideration, taking into account (i) the due diligence conducted on the CCMH Group, (ii) the profits of the CCMH Group for the years ended 31 December 2011, 2012, and 2013, as well as half year ended 30 June 2014, and (iii) the order book and estimated profits of the CCMH Group provided by Management. As such, the Company believes that Rich Circle and its subsidiaries will continue to contribute positively to the financial position of the Company.

Company’s Response to SGX Query 7(b)

The global economies, in particularly United States and European region, have remained bleak, resulting in a weak export market which had affected the whole textile industry in the PRC. As such, the demand for fabrics remains unstable and uncertain. The Company is also of the view that the fabric industry has limited growth potential due to intense competition from other industry players, the rising materials’ and labour costs and the lack of economies of scale of this business. The Management will continue to monitor the situation and provide updates to its shareholders as appropriate.

By Order of the Board

Neo Chee Beng
Executive Chairman
24 November 2014