

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the Announcement (as defined below).

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (the “**Announcement**”) on 31 July 2017 on the Proposed Transaction (defined below). In this regard, the Board would like to respond to the following queries (each, an “**SGX Query**”) raised by the Singapore Exchange Securities Trading Limited as follows:

SGX Query 1

In the Company’s 31 July 2017 announcement (the “**Announcement**”), it was disclosed that “the Company has on 30 July 2017 entered into a non-binding term sheet (the “**Term Sheet**”) with (i) Mr. Huo Wei Sheng, a former executive Director and current Chief Operating Officer of the Company, and (ii) Ms. Li Ya Xin, a fellow shareholder of Rich Circles Enterprise Limited (“**Rich Circles**”), for the proposed sale (the “**Proposed Transaction**”) of the Company’s and Ms. Li Ya Xin’s shares in the capital of Rich Circles (“**RC Shares**”) to Mr. Huo Wei Sheng”. In this respect, we note that the Company had acquired its 54.46% interest in Rich Circles from Huo Wei Sheng for an aggregate consideration of US\$6,100 and extended loans of RMB 61 million to Rich Circles for Rich Circle’s acquisition of 100% of Xuzhou Zhongwei New Board Co., Ltd (“**Xuzhou Zhongwei**”) 中伟(徐州)新型材料科技有限公司.

Please disclose the disposal consideration for the Company’s 54.46% and Ms. Li Ya Xin’s 45.54% interest in Rich Circles respectively. To disclose the factors taken into account in determining the value of the consideration.

Company’s Response to SGX Query 1

The Company has signed a non-legally binding term sheet with Mr. Huo Wei Sheng and Ms. Li Ya Xin (Mr. Huo Wei Sheng, Ms. Li Ya Xin and the Company collectively, the “**Parties**”) on the proposed disposal of the RC Shares and this is still currently an incomplete proposal and subject to negotiations, with the consideration being only an indicative figure at this point in time. As the Parties have yet to reach agreement in-principle in respect of the consideration for the Proposed Transaction, the consideration which may be finally agreed upon by Parties could still be significantly different from the current indicative figure as a result of further negotiations. As such, the Company considers it inappropriate to publicly disclose the current indicative consideration as it may end up to be an inaccurate and misleading figure to the shareholders of the Company (the “**Shareholders**”) and other readers of this announcement. Should progress on the negotiations stabilise, the Company would proceed to thereafter make disclosure on the consideration and further details of the transaction accordingly.

The Company’s approach above is in line with Rule 703(3) as illustrated by paragraph 11(a) of Appendix 7.1 of the SGX-ST Listing Manual.

The key factor which will be taken into account by the Company in determining the value of the consideration is that of enabling the Company to recoup as much of its loans of an aggregate amount of RMB 61 million to Rich Circles (the “**AF Loans to RC**”) as possible by way of the sale of the 6,100 RC Shares held by the Company, in light of the current financial situation of Xuzhou Zhongwei and its existing net liability to the holders (the “**SME Bondholders**”) of the the RMB 180 million bonds issued by Xuzhou Zhongwei on 28 March 2013 (the “**SME Bonds**”) of as much as RMB 241.5 million (which is still increasing in view of the interest rate of RMB 18 million per annum). In determining the value of

the consideration, the Company fully intends to maximise shareholder value to the greatest practicable extent.

SGX Query 2

The Company disclosed in its FY2015 annual report that “Xuzhou Zhongwei carried in its books a debt security of RMB 180 million, which is a SME Bond with a tenure period of 3 years carrying an interest rate of 10% traded with the Shanghai Stock Exchange”.

- (i) Please provide the website links for the Xuzhou Zhongwei New Board Co., Ltd (“**Xuzhou Zhongwei**”) 中伟(徐州)新型材料科技有限公司 SME bonds, which are purportedly listed on the Shanghai Exchange.
- (ii) The Company disclosed in its FY2015 annual report that “This bond had been defaulted on 28 March 2016 upon maturity”. Please also provide website links to news regarding the default payments and other subsequent updates that were posted on Shanghai Stock Exchange.
- (iii) What actions have been taken and how has the Audit Committee (“**AC**”) satisfied itself that the Company’s representations on the SME Bonds are true and fair?

Company’s Response to SGX Query 2(i)

Following their maturity (and subsequent default in repayment) on 28 March 2016, the SME Bonds have been removed/delisted from the Bonds Trading platform of the Shanghai Stock Exchange with effect from their date of maturity. Accordingly, the SME Bonds are no longer listed on the Shanghai Stock Exchange and are no longer found on the website of the Shanghai Stock Exchange.

Company’s Response to SGX Query 2(ii)

There have been no updates regarding the SME Bonds posted on the Shanghai Stock Exchange since the maturity and removal / delisting of any of the SME Bonds from the Bonds Trading platform of the Shanghai Stock Exchange. Since the maturity of the SME Bonds, the SME Bonds have become a direct debt liability to be resolved between Xuzhou Zhongwei and the SME Bondholders.

Company’s Response to SGX Query 2(iii)

Since the acquisition of Xuzhou Zhongwei’s 100% shareholding interest by the Rich Circles and its subsidiaries (collectively, the “**Rich Circles Group**”), the AC has been fully aware of the SME Bonds issued by Xuzhou Zhongwei, with reference to the audited accounts of Xuzhou Zhongwei.

Prior to the acquisition of Xuzhou Zhongwei by Rich Circles, the then AC was satisfied with the then management’s representations on the SME Bonds, with reference to all due diligence work performed (further details in relation to which are provided in the Company’s response to SGX Query 3 below). Based on the due diligence work performed and the information made available to it, the AC has been assessing the disclosures by the Company in relation to such acquisition as well as updates of the relevant information about the SME Bonds via transaction announcements and subsequent results announcements for consistency therewith.

The management as well as AC have been satisfied on the latest status of the situation regarding the liability in connection with the SME Bonds on the basis of the a legal confirmation letter issued by a Beijing law firm to Zhongchuang (Xuzhou) Construction Material Co., Ltd. as Xuzhou Zhongwei’s only legal owner under the law of the People’s Republic of China.

SGX Query 3

The Auditors disclosed in the FY2015 Annual Report that “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.” In this respect, we note that Huo Wei Sheng is the legal representative of Xuzhou Zhongwei.

- (i) What due diligence was undertaken by the AC to reasonably satisfy themselves on the veracity of the investment in Rich Circles and the loans extended to Xuzhou Zhongwei 中伟(徐州)新型材料科技有限公司?

Company’s Response to SGX Query 3

As set out in paragraph 2.1.3 of the Company’s circular dated 10 May 2017 in respect of the proposed issuance and proposed placement (the “**2017 Issuance and Placement Circular**”), the background of the AF Loans to RC is as follows:

- (a) In connection with the acquisition (“**CCMH Acquisition**”) by Rich Circles of China Construction Material (Hong Kong) Limited (“**CCMH**”) in connection with the share purchase agreement dated 18 June 2014 (“**2014 Acquisition SPA**”) and entered into with China Construction Material Holdings Limited (which was wholly owned by Mr. Huo Weisheng) as vendor for the consideration of RMB 100 million, each of the Company and Ms. Li Ya Xin had granted Rich Circles a loan of RMB 49 million and RMB 51 million respectively on 18 June 2014. The interest of 7% per annum and the outstanding amount of each loan shall be repaid on such date falling 2 years from 18 June 2014, being the date of the loan agreements. The Company and/or Ms. Li Ya Xin may (as the case may be), by giving 10 business days’ notice in writing to Rich Circles, demand early repayment of the interest and the outstanding amount of the loan. Notwithstanding the foregoing, both the Company and Ms. Li Ya Xin have agreed to waive the respective interest payments due to them in view of the financial situation of Rich Circles.
- (b) In connection with the subscription of 1,200 shares on 27 May 2015 for a consideration of US\$1,200 resulting in the Company’s increase in shareholding in Rich Circles to 54.46%, pursuant to a fund-raising exercise by Rich Circles, the Company extended a new shareholders’ loan of RMB 12 million to fund the operational costs of Xuzhou Zhongwei. Ms. Li Ya Xin, who was the Company’s joint venture partner, had declined Rich Circle’s invitation to participate in this subscription. The additional funding was in connection with the Company’s announcement on 23 March 2015 whereby the Company had announced that Xuzhou Zhongwei had on 20 March 2015 entered into a supply contract with Beijing Baota Petrochemical Company Limited (“**Baota**”) to supply construction materials for the building of Baota’s two projects – the heavy aromatics and olefins utilization refinery and economical recycle supporting facilities in Kuitun located within the Dushanzi Economic and Technological Development Zone in Xinjiang, China, as well as Baota’s chain of petrol kiosks in Northwest China, for an aggregate amount of approximately RMB 381 million. Rich Circles had thereafter undertaken the fund-raising exercise to raise funds for the anticipated operational costs.

The Company had conducted due diligence on Rich Circles prior to providing the AF Loans to RC. As highlighted in paragraph 2.5.12 of the 2017 Issuance and Placement Circular, the Company had taken sound steps to consider the potential of its investment in Rich Circles by conducting due diligence, valuation and audits. In arriving at its decision, the Company had taken into account, *inter alia*, the net tangible value of Xuzhou Zhongwei as at 31 December 2013, the net profit after tax of Xuzhou Zhongwei for the year ended 31 December 2013, and the historical performance and potential business growth of Xuzhou Zhongwei. Only after such a positive pre-acquisition review did the Company then decide to invest in Xuzhou Zhongwei.

As highlighted in the Company's announcement dated 6 January 2014, such due diligence included financial and legal due diligence exercises (the "**Due Diligence Exercises**") performed by Deloitte & Touche Financial Advisory Services Limited, Beijing Branch and King & Wood Mallesons respectively on Xuzhou Zhongwei.

The then AC of the Company had relied on the Due Diligence Exercises to reasonably satisfy themselves of the veracity of the investment in Rich Circles and the AF Loans to RC.

SGX Query 4

With respect to the RMB 49 million loan extended by the Company to Rich Circles on 18 June 2014, the Company has agreed to waive the respective interest payments due to the Company in view of the financial situation of Rich Circles. Please provide details on the review undertaken by the AC to satisfy themselves of the following:

- (i) How the RMB49 million proceeds have been utilized by Rich Circles/Xuzhou Zhongwei.
- (ii) Please provide specific details on what due diligence had been undertaken by the Board of Directors (the "**Board**") before granting this loan to Rich Circles for Xuzhou Zhongwei? Was the Board aware of the financial situation of Xuzhou Zhongsen it extended loans for utilization by Xuzhou Zhongwei 中伟(徐州)新型材料科技有限公司 in 2015? If not, why was this not obvious in Xuzhou Zhongsen's financial statements?
- (iii) On the veracity of the loan extended by Rich Circle to Xuzhou Zhongwei and the financial position of Rich Circles and its subsidiary Xuzhou Zhongwei.

Company's Response to SGX Query 4(i)

As announced by the Company on 3 July 2014, the proceeds in relation to the shareholders' loan of the principal amount of RMB 49 million extended by the Company to Rich Circles (the "**First AF Loan to RC**"), together with the the loan of RMB 51 million from Ms. Li Ya Xin to Rich Circles (the "**LYX Loan to RC**"), was utilised by Rich Circles (a 49% owned associated company of the Company at that time) for the CCMH Acquisition for the aggregate consideration of RMB 100,000,000. Further details of the CCMH Acquisition are as set out in the Company's announcements on 18 June 2014, 25 June 2014, 27 June 2014 and 3 July 2014.

The Board (including the AC) had reviewed the terms of documentation relating to the First AF Loan to RC and the 2014 Acquisition SPA, and the findings of the Due Diligence Exercises, to reasonably satisfy themselves of the use of proceeds of the First AF Loan to RC stated above.

Company's Response to SGX Query 4(ii)

Please refer to the Company's response to SGX Query 3 in respect of the due diligence undertaken by the Board prior to providing the AF Loans to RC. The Board was aware of the financial situation of Xuzhou Zhongwei prior to the CCMH Acquisition, and full details thereof were highlighted in the Due Diligence Exercise. As set out in paragraph 2.1.5 of the 2017 Issuance and Placement Circular, the SME Bonds were also reflected as "non current liabilities" in the 2012 to 3Q2014 Financial Statements of Xuzhou Zhongsen (the former name of Xuzhou Zhongwei) annexed to the circular by the Company dated 9 January 2015 in relation to the proposed placement of 100,000,000 new ordinary shares to Feng Jia Cheng, Wang Hui, Cai Yi and Guo Wei Qi and the proposed disposal of Qianfeng International Limited (the "**2015 Circular**").

Company's Response to SGX Query 4(iii)

As set out in the Company's response to SGX Query 4(i) above, the First AF Loan to RC was not extended to Xuzhou Zhongwei as it was utilised for the CCMH Acquisition (and not for the purposes of raising working capital for Xuzhou Zhongwei). Xuzhou Zhongwei had in 2013 raised working capital through the issuance of the SME Bonds. As set out in paragraph 2.1.5 of the 2017 Issuance and Placement Circular, the intended use of proceeds of the SME Bonds was to expand Xuzhou Zhongwei's production capacity and to purchase significant amounts of raw materials in anticipation of big repeat orders from Baota and Han Energy, who were the then key customers of Xuzhou Zhongwei. Following the issuance of the SME Bonds, all of the proceeds received were thereafter utilised to expand the production capacity of Xuzhou Zhongwei and to purchase additional raw materials for production purposes.

Please refer to the Company's response to SGX Query 3 in respect of the due diligence undertaken by the Board prior to providing the AF Loans to RC, addressing the veracity of the AF Loans to RC and the financial position of Xuzhou Zhongwei. In addition, the Board also examined bank statements, transfer slips, company records and acknowledgements of receipt, etc in respect of the AF Loans to RC.

SGX Query 5

The Company had disclosed in their announcement dated 24 March 2015 via SGXnet that "prior to the acquisition of Xuzhou Zhongwei by the Rich Circles Group in June 2014, Xuzhou Zhongwei purportedly issued SME Bonds of up to RMB 180 million on 18 March 2013". In the Company's circular dated 10 May 2017, it was disclosed that "The SME Bonds were reflected as "non current liabilities" in the 2012 to 3Q2014 Financial Statements of Xuzhou Zhongsen... Following the issuance of the SME Bonds, all of the proceeds received were thereafter utilised to expand the production capacity of Xuzhou Zhongwei and to purchase additional raw materials for production purposes."

It was further disclosed in the Company's 10 May 2017 circular that "Due to the cancellation and abortion of the significant orders from Baota and Han Energy respectively, which were due to circumstances beyond the reasonable control of the Company, Xuzhou Zhongwei was thereafter unable to generate sufficient revenue, net operating profit and cashflow to repay the RMB 180 million SME Bonds, together with their annual interest charge of RMB 18 million when these fell due on 28 March 2016. Xuzhou Zhongwei has sought to remedy the situation by using its best endeavours to sell its existing inventory and to implement cost control measures in respect of the high operational costs to ensure that it is able to continue as a going concern"; and that "In the initial period after the acquisition, Xuzhou Zhongwei recorded turnovers of RMB 134.3 million, RMB 311.7 million, RMB 176.9 million, RMB 71.1 million and RMB 35.2 million for the quarters ended 30 September 2014, 31 December 2014, 31 March 2015, 30 June 2015, and 30 September 2015 respectively."

- (i) Was the Company aware of the existence of the SME Bonds?
- (ii) When did the default of SME Bonds occur and when did the Company become aware of the default?
- (iii) What action has been undertaken by the company to verify all of the above representations, including the veracity of the significant orders from Baota and Han Energy;
- (iv) Please provide details on Baota and Han Energy, for how long has these entities been customers of Xuzhou Zhongwei, how significant were the orders from Baota and Han Energy and what were the circumstances for the cancellation of the orders from Baota and Han Energy.
- (v) Why did the Company go ahead with the subscription of 1,200 shares on 27 May 2015 for a consideration of US\$1,200 that resulted in the Company's shareholding in Rich Circles to increase to 54.46% when the turnover of Xuzhou Zhongwei has dropped by 47% at that point in time? The Company also extended a further loans in May 2015 of RMB 12 million to fund the operational costs of Xuzhou Zhongwei. Please set out the Board's basis of doing so and

whether the AC and its members had agreed to extend this loan. How have the AC members satisfied themselves that the loan is in the best interest of the Company

Company's Response to SGX Query 5(i)

The Company was aware of the existence of the SME Bonds. As set out above and in paragraph 2.1.5 of the 2017 Issuance and Placement Circular, the SME Bonds were reflected as "non current liabilities" in the 2012 to 3Q2014 Financial Statements of Xuzhou Zhongsen annexed to the 2015 Circular.

Company's Response to SGX Query 5(ii)

The default in the repayment of the SME Bonds occurred on 28 March 2016 when Xuzhou Zhongwei failed to repay the SME Bondholders the principal amount of RMB 180 million and all the then accrued interest in respect of the SME Bonds. The Company was aware of the possibility of default approximately three to four months prior to the maturity date of the SME Bonds, and had engaged in discussions with Ms. Li Ya Xin and the SME Bondholders on this. On 29 February 2016, one month ahead of the maturity date of the SME Bonds on 28 March 2016, the Company announced that the local management of Xuzhou Zhongwei was then in ongoing negotiations with the SME Bondholders on the extension of the repayment schedule for the amounts due under the SME Bonds.

The Company provided a further update to Shareholders, by way of announcement on 17 June 2016, that Xuzhou Zhongwei may have potential cash flow problems and will not have sufficient funds for repayment of the SME Bonds. The Company also stated that the local management was still negotiating for an extension of the repayment schedule with SME Bondholders.

Company's Response to SGX Query 5(iii)

In respect of the verification of the initial significant orders with Baota and Han Energy Co., Ltd ("**Han Energy**"), in particular the orders announced by the Company on 23 March 2015, the Company had taken into account the following:

- (i) the supply contract entered into between the Company and Baota dated 20 March 2015 to supply construction materials for the building of Baota's two projects – the heavy aromatics and olefins utilization refinery and economical recycle supporting facilities in Kuitun located within the Dushanzi Economic and Technological Development Zone in Xinjiang, China, as well as Baota's chain of petrol kiosks in Northwest China, for an aggregate amount of approximately RMB 381 million;
- (ii) the long-term working relationship between the Company and Baota for the prior two years (i.e. since 2013);
- (iii) the informal discussions and agreement between the Company and Han Energy in respect of the orders of possible maximum amount of RMB 150 million for the second half-year of 2015;
- (iv) the well-built business relationship between the Company and Han Energy for the prior two years (i.e. since 2013); and
- (v) Han Energy's strong financial position as a subsidiary of Hanergy Thin Film Power Group Limited, a company listed on the HKEx with a large market capitalisation at the date of execution of its supply contract with Xuzhou Zhongwei.

Following the above, as disclosed in paragraphs 2.1.7 and 2.1.8 of the 2017 Issuance and Placement Circular:

- (i) As disclosed by the Company previously in its results announcement for 4Q2015 made on 14 February 2016, Baota had thereafter communicated in late 2015 that it had encountered certain financial difficulties, resulting in the cancellation of its remaining orders. The Company

had verified this based on direct communication between Mr. Huo Weisheng (then an executive Director and Chief Operating Officer of the Company) and the management of Baota.

- (ii) The significant orders expected from Han Energy which were up to a possible maximum amount of RMB 150 million for the second half-year of 2015 had unfortunately been aborted due to the sudden suspension of the shares of its holding company, Hanergy Thin Film Power Group Limited, on the HKEx on 15 July 2015.

In relation to such suspension, the Company had verified this with reference to the announcement issued by The Securities and Futures Commission of Hong Kong (“SFC”) on 23 January 2017 that it had commenced legal proceedings in the Court of First Instance to seek disqualification orders against the former chairman, Mr. Li Hejun, and four then independent non-executive directors, Ms. Zhao Lan, Mr. Wang Tongbo, Mr. Xu Zheng and Mr. Wang Wenjing, of Hanergy Thin Film Power Group Limited. The SFC is also seeking a court order requiring Mr. Li Hejun to procure that Hanergy Thin Film Power Group Limited’s parent company, Hanergy Holding Group Limited and/or its affiliates pay all outstanding receivables due to Hanergy Thin Film Power Group Limited under various sales contracts and execute a guarantee securing their payment. The SFC’s action follows its investigation into various very substantial connected transactions between Hanergy and Hanergy Holding Group Limited since 2010. The SFC alleges that the five directors failed to question the viability of Hanergy Thin Film Power Group Limited’s business model which relied on the sales of solar panel production systems to its connected parties, Hanergy Holding and its affiliates, as its main source of revenue; and failed to properly assess the financial positions of the connected parties and hence the recoverability of the receivables due from them as a result of these connected transactions. It was reported that they had also failed to take proper steps to recover these receivables by putting the interests of the connected parties before that of Hanergy Thin Film Power Group Limited.

Company’s Response to SGX Query 5(iv)

Please refer to the Company’s response to SGX Query 5(iii) above, which sets out information in respect of the orders from Baota and Han Energy and the circumstances for the cancellation of these orders.

Company’s Response to SGX Query 5(v)

As set out above and in paragraph 2.1.3 of the 2017 Issuance and Placement Circular, in connection with the subscription of 1,200 shares on 27 May 2015 for a consideration of US\$1,200 resulting in the Company’s increase in shareholding in Rich Circles to 54.46%, pursuant to a fund-raising exercise by Rich Circles, the Company extended a new shareholders’ loan of RMB 12 million to fund the operational costs of Xuzhou Zhongwei. Ms. Li Yaxin, who was the Company’s joint venture partner, had declined Rich Circle’s invitation to participate in this subscription. The additional funding was in connection with the Company’s announcement on 23 March 2015 whereby the Company had announced that Xuzhou Zhongwei had on 20 March 2015 entered into a supply contract with Baota to supply construction materials for the building of Baota’s two projects – the heavy aromatics and olefins utilization refinery and economical recycle supporting facilities in Kuitun located within the Dushanzi Economic and Technological Development Zone in Xinjiang, China, as well as Baota’s chain of petrol kiosks in Northwest China, for an aggregate amount of approximately RMB 381 million. Rich Circles had thereafter undertaken the fund-raising exercise to raise funds for the anticipated operational costs. As set out in the Company’s response to SGX Query 5(iii) above, the above details had been verified by the Company, and the members of the AC had satisfied itself that this loan was in the best interest of the Company.

While the turnover of Xuzhou Zhongwei had decreased by 47% at that point in time, this was due to ever-increasing competition from other existing and new New Material Boards manufacturers and suppliers in the market and the Company had anticipated that the turnover would increase following the completion of the orders from Baota and Han Energy.

In addition to the above, the Company wanted to obtain majority control over the Rich Circles Group and to support the continued operations of Xuzhou Zhongwei in light of the positive outlook then.

SGX Query 6

Did the Board obtain legal advice to demand of the repayment of the debt from Rich Circles? As disclosed previously, the net asset value (“NAV”) of Xuzhou Zhongwei is RMB 193.2 million as at 30 June 2016. What is its NAV as at 30 June 2017?

Company’s Response to SGX Query 6

The Board is aware of the fact that both the Company and Ms. Li Ya Xin have extended the respective shareholders’ loans (i.e. the AF Loans to RC and the LYX Loan to RC) to Rich Circles on an equitable basis and both parties have the same equal legal right to demand for the repayment of the respective shareholders’ loans from Rich Circles. As announced by the Company previously, the Company continued to assess its recovery of the investment in light of the ongoing negotiations and other options of realising its returns, including but not limited to demanding repayment of the debt and/or a sale of the Company’s interest in Rich Circles.

Following the assessment, the management and the Board considered it to be in the best interests of the Company and Shareholders to use best endeavors to identify and secure interested buyers (including but not limited to Mr. Huo Wei Sheng) for the sale and purchase of the Company’s 54.46% shareholdings in RC so that the Company can recover a reasonable amount of cash while Xuzhou Zhongwei is still under a going concern status, given that:

- (a) it appears to the Board and management of the Company that neither the Company nor Ms. Li Ya Xin currently has the financial ability or justification to collectively inject as much as RMB 241.5 million (principal + accrued interest to-date) into Xuzhou Zhongwei to enable it to repay the SME Bondholders so as to avoid liquidation if the SME Bondholders commence court proceedings; and
- (b) the Company would not be able to recoup any significant amount of cash no feasible solution is arrived at with the SME Bondholders in the near foreseeable future.

As Rich Circles itself does not possess any significant cash or liquid assets apart from its 100% shareholding interest in Xuzhou Zhongwei, following discussions with Ms. Li Ya Xin, the Board took the view that it would not be beneficial for the Company to pursue any legal action against Rich Circles at any point in time to demand for the repayment of the AF Loans to RC. As such, in light of the above, the Board did not obtain additional legal advice to pursue this.

The NAV of Xuzhou Zhongwei, as reported by Xuzhou Zhongwei’s management, as at 30 June 2017 was approximately RMB 95 million. However, the expected net realizable value, if the SME Bondholders decide to file a court petition for the compulsory liquidation of Xuzhou Zhongwei as a result of its default in the repayment of the SME Bonds, could even be lower if major plant and machinery and inventories were forced to be disposed on the market under a liquidation position.

SGX Query 7

It was disclosed in the Company’s 2016 Annual Report that Company’s external auditors Foo Kon Tan LLP had “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” and that “(d)espite 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”. In such circumstances,

- (i) In view of the lack of information on this transaction and the significant amount that was transferred to Rich Circles which became fully impaired within a short span of time, did the AC

consider a special audit to be conducted on Rich Circles to determine the state of affairs of Rich Circles? If not, please provide substantiation why this was not undertaken and what the AC did instead to verify the veracity of the investment and loans to Rich Circles.

- (ii) If the Company's CFO Mak Tin Sang is the CEO and executive director of Xuzhou Zhongwei and the Company's COO Huo Wei Sheng is the legal representative of Xuzhou Zhongwei and with the Company's 54.46% holdings in the Company, why is the Company unable to access financial information of Xuzhou Zhongwei, and assist the auditors to obtain information for them to complete their audit of Rich Circles and its wholly-owned subsidiaries as an associated company?
- (iii) It was also disclosed in the Company's 2016 Annual Report that "(o)ne of the bond holders has also made an application to the Court for Orders of freezing of assets". Please provide an update of this application and the actions taken by the Board in relation to this matter. Please update on the status relating to the Bond default. Elaborate on the matter under negotiation and whether the Board has kept itself abreast of the stage and status of the negotiations by Mr. Huo Wei Sheng. If not, how would the Board assure itself that its disposal of Rich Circles to Mr. Huo Wei Sheng is fairly valued and is not prejudicial to the interest of the Company and its public shareholders.

Company's Response to SGX Query 7(i)

The major reason that the Company's auditors were not allowed to get access to the books and records of Xuzhou Zhongwei since the default on the repayment of the SME Bonds on 28 March 2016 was due to the concerns of the SME Bondholders that the owner of Xuzhou Zhongwei may illegally change, amend or alter the books and records of Xuzhou Zhongwei to their disadvantage. As a result, the SME Bondholders have demanded for a freeze of the books and records of Xuzhou Zhongwei and therefore all such records have to be kept under close custody of the SME Bondholders' local representatives, the failure to comply with which would likely cause the SME Bondholders to take immediate legal action against Xuzhou Zhongwei, which could be disastrous to the Company's investments into and loans to the Rich Circles Group.

Please refer to the Company's response to SGX Query 3 above on the steps taken by the Audit Committee of the Company to verify the veracity of the investment and loans to Rich Circles.

Company's Response to SGX Query 7(ii)

Although (i) the CFO of the Company, Mr. Mak Tin Sang, is a director of the Rich Circles Group, and (ii) the former COO of the Company, Mr. Huo Wei Sheng was the legal representative of the Xuzhou Zhongwei and (iii) the Company holds a majority stake in Rich Circles, as explained above in the Company's response to SGX Query 7(i), the SME Bondholders have demanded for a freeze of the books and records of Xuzhou Zhongwei. In addition, the SME Bondholders have expressly insisted that they will only deal with the original local management of Xuzhou Zhongwei which they know well (in particular, Mr. Huo Wei Sheng) but will not accept the participation in the on-going negotiations with any representatives of Xuzhou Zhongwei's supposedly owners or directors from overseas' entities which they have not made any contact with before.

Company's Response to SGX Query 7(iii)

All the SME Bondholders have unanimously appointed “徐州国能健康产业科技有限公司” as their sole representative in the on-going negotiation with Xuzhou Zhongwei on the negotiations for the resolution of the default by Xuzhou Zhongwei on the SME Bonds. Currently, all applications by the SME Bondholders for court orders have been withdrawn.

The Board and AC will take all necessary steps to assure themselves that the disposal of Rich Circles to Mr. Huo Weisheng is fairly valued and in the best interest of Shareholders. In particular, the Board and the AC will take into account all relevant factors in determining an appropriate valuation and the

options being considered by the Board and AC include engaging an independent valuer to perform a proper valuation on the value of the Rich Circles Group.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
25 August 2017