

Independent Auditor's Report

To the Member of Asia Fashion Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Asia Fashion Holdings Limited ("the Company") and its subsidiaries ("the Group"), which comprise the statements of financial position of the Group and of the Company as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 32 to 72 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Compensation claims by claimants

During the financial year ended 31 December 2013 the Group recorded compensation claims amounting to RMB 424.58 million as an expense in profit or loss for the year. These compensation claims had either been paid and/or fully provided for in the financial statements of the Group as at 31 December 2013.

Under the settlement agreements entered into between the Group and certain customers of the Group (the "claimants") in relation to the defective products sold by the Group to the claimants that resulted in defective shoes produced and manufactured by the claimants, the total compensation claims by claimants were RMB 424.58 million out of which RMB 300 million was paid in September 2013 and the remaining amount of RMB 124.58 million is payable over five years from future sales to these claimants including setting off of any outstanding trade debts owed by these claimants to the Group. Based on information, explanation and representations received from management, the Group had given up the ownership rights and title to the defective shoes from its claimants in exchange for a reduced amount of compensation claims by claimants. Subsequent to the financial year on 10 March 2014, the claimants served notices of arbitration against the Group. On 13 March 2014, an arbitration commission had confirmed that the terms of the settlement agreements were valid and enforceable, and affirmed that the Group was required to pay compensation amounting to RMB 86.5 million (refer to Note 16) to the claimants by way of the provision of products over the period of sixty months.

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We did not physically sight or attend the inventory count of the defective shoes that were the subject of the compensation claims by the claimants. We were also not able to perform satisfactory alternative procedures on the compensation claims by claimants as the Group does not and was unable to provide contemporaneous accounting records and documents of the inventories of defective shoes belonging to the claimants nor the production of the defective shoes as these shoes were not produced by the Group. We were unable to obtain sufficient and appropriate evidence that will adequately support the amount of compensation claims by claimants as recorded in the books of the Group. We were also unable to perform the necessary audit procedures to ascertain the completeness of the compensation claims due to the lack of information and related documents of the Group.

We were unable to perform the necessary audit procedures and were unable to obtain sufficient and appropriate audit evidence in relation to the confirmation by the arbitration commission to satisfy ourselves as to the verifiability of the compensation claims by claimants. The company appointed a law firm in the People's Republic of China ("PRC") to review the arbitration proceedings and provide advice to the Board of Directors of the Company. On 15 April 2014, the law firm opined that the settlement agreements are legal and enforceable, the arbitration commission's confirmation of the settlement agreements is legal and in accordance with the laws in the PRC and that the claimants cannot make any other claims against the Group provided the terms and conditions of the arbitration commission's confirmation have been complied with. Notwithstanding this, as stated in the preceding paragraphs, we were unable to obtain sufficient appropriate audit evidence to ascertain the appropriateness of amount of compensation claims by claimants in the financial statements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of the results, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a) to the financial statements which sets out the uncertainties over the going concern assumption used in the preparation of the statement of financial position of the Company and the consolidated financial statements of the Group. The appropriateness of the going concern assumption on which the statement of financial position of the Company and the consolidated financial statements of the Group are prepared is dependent on the continued support from the shareholders of the Company and the Group's ability to generate sufficient cash from its operations to meet its obligation as and when they fall due. The going concern assumption is also dependent on the provision of loans of up to RMB 100 million by the Company's Chief Executive Officer ("CEO"), director and shareholder, Lin Daoqin, on demand by the Company to support the financial position of the Company. On 23 April 2014, Lin Daoqin has executed a deed of undertaking prepared under PRC laws to the Company in relation to the provision of loans of up to RMB 100 million. The CEO had also on the same date executed a mortgage, governed by PRC law, over four of his properties in Fuzhou city in the Fujian province in PRC which are estimated to be worth above an aggregate of RMB 120 million, as security for the irrevocable undertaking. If the supports from these parties are not forthcoming, or the Group is unable to generate sufficient cash from its operations, the Group may be unable to continue in operational existence for the foreseeable future. In forming our opinion, we have considered the adequacy of the disclosures of the above matter in the financial statements.

Foo Kon Tan Grant Thornton LLP
Public Accountants and
Chartered Accountants

Singapore,
30 April 2014