

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 2015**

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 12 November 2015 on the Unaudited Third Quarter Financial Statement and Dividend Announcement for the Period Ended 30 September 2015 (“**Q3 2015**”). 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 (“**SGX Query**”) raised by the Singapore Exchange Securities Trading Limited (the “**SGX**”) as follows:

SGX Query 1

We note that 9M2015 Revenue was RMB106.249 million. Please disclose why ‘Inventories’ is more than ‘Revenue’ at RMB164.217 and provide breakdown by major items.

Company’s Response to SGX Query 1

Please refer to the Page 9 (note B) of the Group’s FY2015 Q3 Results Announcement for the fact that the Group only started to consolidate the financial performance and financial position of its 54.46% owned subsidiary, Rich Circles Enterprise Limited (“**Rich Circles**”), from 27 May 2015 instead of from 1 January 2015. Thus, the revenue of RM106.249 million is from 27 May 2015 to 30 September 2015 instead of the total revenue generated for the full 9 months ended 30 September 2015.

For the avoidance of doubt, the actual revenue generated by Rich Circles for the full 9 months’ period from 1 January 2015 to 30 September 2015 was approximately RMB 408.6 million which, when compared to our 30 September inventory level of approximately RMB 164.2 million, was considered as reasonably normal and stable.

The breakdown of the inventory as at 30 September 2015 is as follows:

	<u>RMB’000</u>
Raw materials	59,602
Work in Progress (WIP)	52,878
Finished goods	32,206
Consumable Materials	280
Goods in transit	18,578
Package	486
Others	187
Total	<u>164,217</u>

SGX Query 2

Please disclose the nature and details of the underlying items/transactions in relation to ‘Revenue’ of RMB106.249 million for 9M2015.

Company’s Response to SGX Query 2

The nature and detail in respect of “Revenue” have been set out in Page 15 note 8 of the Group’s FY2015 Q3 Results Announcement. A further breakdown of this into categories is as follows:-

9M2015
RMB’000

Magnesium multifunctional board	15,586
Decorative board	42,148
Aluminium products	48,515
Total	<u>106,249</u>

As we can only consolidate the revenue of Rich Circles from 27 May 2015, RMB 106.249 million only represented the Group's revenue generated for the period from 27 May 2015 to 30 September 2015. The actual revenue generated by Rich Circles for the 9 months from 1 January 2015 to 30 September 2015 was approximately RMB 408.6 million.

SGX Query 3

Please disclose the reasons for the following significant item:-

- (a) 'Inventories' of RMB164.217 million
- (b) Trade receivables of RMB 198.807 million and collectability of the debts.

Company's Response to SGX Query 3

Reason of significant item of inventories:-

Due to the nature of the business – manufacturing and trading of new construction materials, and the fact that it takes quite a considerably lengthy of materials preparation and production time from orders confirmation to product delivery (basically ranging from 30 days to 90 days), in order to enhance the Company's market competitiveness and the customers' satisfaction level on the basis of being able to ensure quick and prompt delivery schedules, the Company has the practical needs to keep reasonably sufficient level of inventory, in terms of raw materials, WIPs and finished products, for the following additional reasons:

- Bulk purchase of Raw Materials in order to reduce the purchase price per unit.
- Reduction of the averaged unit transportation cost by making bulk purchases.

Taking the actual revenue generated for the 9 months ended 30 September 2015 to be approximately RMB408.64 million and in anticipation of the additional revenue to be generated by the Company in the fourth quarter of FY2015 ending 31 December 2015, the management considered that the present inventory level was stable when compared to the Company's past quarters' level and was practically reasonable from the business requirement perspective.

Trade receivables:

The Company supplied our new materials mainly to our clients for their respective construction or large-scale buildings furnishing projects. Payments were normally only made on stage of completion basis which is a very commonly accepted business practice in China. Comparing to the actual revenue generated by Rich Circles for the first nine months of FY2015 at approximately RMB408.64 million and the Company's trade receivable level in the reported past quarters, the management considered that the current level of trade receivables was practically reasonable and common in the industry sector we are operating, and yet the management will closely monitor the collection progress of such trade receivables from time to time.

Further to that, Pleaser refer to the FY2015 Q3 Results Announcement on page 17 for the relevant aging analysis of trade receivable which is as follows:-

	<u>9M2015</u> <u>RMB'000</u>
Magnesium multifunctional board	15,586
Decorative board	42,148
Aluminium products	48,515
Total	<u>106,249</u>

SGX Query 4

We note that the Group's subsidiary, Xuzhou Zhongwei New Board Co., Ltd had on 28 March 2013 issued a private RMB180 million SME Bond and the SME Bond is repayable in full on 28 March 2016. Noting that cash in the Group is only RMB 20.105 million, please disclose how this amount will be funded.

Company's Response to SGX Query 4

According to the senior management of Group's subsidiary Xuzhou Zhongwei New Board Co. ("XZZW"), they are discussing and negotiating with the SME Bondholders to extend this SME Bond. Based on the negotiation so far, the senior management believes that it is highly likely that the SME Bondholders will agree to such extension request. As a backup plan, the XZZW senior management is concurrently in discussion with local banks to provide sufficient financial facilities to XZZW to settle the SME Bond at maturity in the event that the SME Bond is not extended. The management will provide updated progress on this subject to the Board as well as the shareholders from time to time through release of timely announcements on the SGXNet.

SGX Query 5

We note advances paid to 'Machinery & Maintenance' of RMB42.139 million on page 18 of the results announcement. Please provide the following information:-

- (a) Provide breakdown
- (b) Elaborate on the contract for this and reasons why this is so significant in comparison to Company's NAV of RMB99.891 million
- (c) When was payment made and when is delivery expected
- (d) What is total contract size and why is such a large amount paid out as advances
- (e) Elaborate on the nature of the machinery & maintenance required under the contract, who is the supplier and whether the supplier is related to the Company
- (f) Provide the financial standing and size of operations of these debtors.

Company's Response to SGX Query 5

Please refer to the following detailed breakdown by suppliers

Name of supplier*	Prepayment amount RMB'000'	Date of prepayment	Contract amount RMB'000'
Supplier 1	115	2015.6	230
Supplier 2	4,927	2015.6	7,680
Supplier 3	850	2015.8	1,250
Supplier 4	90	2015.9	150
Supplier 5	19,838	2015.9	25,500
Supplier 6	14,674	2015.9	18,600
Supplier 7	1,626	2015.9	2,150
Supplier 8	19	2015.9	30
TOTAL	42,139	-	55,590

* **Note:** the identities have been withheld due to confidentiality issues.

The total outstanding "advances" payment of approximately RMB42.139 million as shown in the above table actually represented the total amount of deposits and progress payments made to the

respective suppliers of ordered tailor-made new production plant and machinery as replacement of the obsoleted and ineffective old production machinery which have become less productive and bringing increasingly higher repair and maintenance cost burden to the Company going forward.

Most of these M&M orders need to be customized to XZZW's production lines' and products' specification and accordingly the requested order deposit and progress payments for these M&M orders are significantly higher than orders placed for the purchase of standardized products.

As indicated in the above table, the total outstanding M&M contract sum is approximately RMB55.6 million and the total outstanding deposits and progress payments made to these suppliers is approximately RMB42.14 million or 75.8% of the total contract sum.

As at the date of this response, most of the machines ordered and listed in the above table have already been delivered to the XZZW factory site and were currently under installation, commissioning, site problems diagnosis and fixing, trial running and final ready-for-use testing which, according to our adopted accounting policy and before the final ready-for-use acceptance tests of these machines have been completed to XZZW's satisfaction, cannot be capitalized/recognized in the books of the Company as Property, Plant and Equipment.

The suppliers were mainly well-established and reputable companies in China, and none of them was related party to the Company or its management.

SGX Query 6

We note advances paid to 'Distributors' of RMB25.148 million on page 18 of the results announcement. Please provide the following information:-

- (a) Reasons why significant advances are made to distributor
- (b) Details on what this payment is for
- (c) What is the financial standing of these distributors
- (d) When is advances repayable, what is the aging and collection

Company's Response to SGX Query 6

As part of the Company's sales and marketing strategy and strong intention to penetrate into the new materials market in other regions of China other than Xuzhou and its surrounding areas, the Company has to convince and persuade major industry and product distributors to display and sell the Company's products in their respective outlets. Thus, the Company has to make reasonable advances to those distributors to attract them to allow our products to replace other suppliers' products for display and sales in their outlets as practically these distributors' cost of renting, running and promoting the distribution outlets were quite enormous. Thus these advance payments can also be considered as some sort of goodwill deposits to these distributors to share their outlet maintenance cost. However, these shall be refunded to us upon termination of such cooperative relationships.

Please refer to the following for the detail of Major distributors:-

Name of distributor	Date of payment	Amount (RMB'000')
Distributors 1	December 2014	9,149
Distributors 2	September 2014	5,853
Distributors 3	December 2014	4,338

* **Note:** the identities have been withheld due to confidentiality issues.

The above are mainly sizable and reputable distributor in the outlet and retail sale of both traditional and new construction materials in China. XZZW management has been closely monitoring the consignment sales progress and the financial standing of these major distributors.

SGX Query 7

We note advances paid to 'Prepayments' of RMB18.072 million on page 18 of the results announcement. Noting that total cost of sales for 9M2015 is RMB73.087 million and for 3Q2015 is RMB22.386 million, please provide the following information:-

- (a) Elaborate on significant amount of prepayment required
- (b) The type of raw materials and size of the supplier and what is supplier's financial standing and others in undertaking the delivery
- (c) What is the contract size of this inventory and when is delivery of goods expected.

Company's Response to SGX Query 7

Same as explained under Query no. 1 and Query no. 2 above, the actual total cost of sales for the Company for the full 9 months ended 30 September 2015 should be approximately RMB292.5 million instead of RMB73.087 million, and taking this figure into consideration, the management considered such prepayments, which were mostly related to the purchase of major spare parts and tools (not classified as inventory in the financial position) for the up-keeping of existing machines as well as the provision of operations related professional services, as practically reasonable.

SGX Query 8

We note advances paid to 'Loans to business associates' on page 18 of the results announcement. Please provide the following information:-

- (a) Name of beneficial owner
- (b) Details of the associates
- (c) Reason for the loan and credit standing
- (d) Whether they will be able to repay the loan
- (e) Terms of the loan and due date.

Company's Response to SGX Query 8

Name of beneficial owner are in the followings-

Name of beneficial owner*	At 30 September 2015 RMB'000'
Beneficial owner 1	5,490
Beneficial owner 2	6,000
Beneficial owner 3	24,203
TOTAL:	<u>35,693</u>

* **Note:** the identities have been withheld due to confidentiality issues.

The Company's business associates where certain advances have been granted includes companies principally engaged in high technology development, property development and investment holding. These are long-term business associates with XZZW and are introducers of major customers to XZZW at its founding and kick-off stages before the Group acquired XZZW's controlling interests.

In addition to the respective personal guarantees given by the owners of these business associates, XZZW management has been closely monitoring the repayment progress of these advances to business associates and is confident that such will be repaid to XZZW within the next 12 months' period.

SGX Query 9

We note 'Provision for compensation to distributors/minimum guaranteed loyalty' of RMB13.916 million on page 19 of the results announcement. Please provide details of these arrangements and why is the amount of RMB13.916 million so significant in comparison to Group's NAV of RMB99.891 million.

Company's Response to SGX Query 9

The Provision for compensation to distributors and minimum guaranteed royalty are basically related to the disposed business of Qianfeng International Limited in February 2015. The details are as follows:-

- a) Provision for compensation to distributors amounting to approximately RMB8.6 million related to the maximum amount of compensation payments under the terms of the distributorship agreement entered into by the Company with certain distributors for the retailing of the Goodyear Products following the termination of the trademark agreement with Goodyear. During the previous year the distributors have agreed to a reduced amount of compensation pursuant to the revised settlement agreements entered into with the distributors.
- b) Provision for minimum guaranteed royalty amounting to approximately RMB5.3 million related to the minimum guaranteed royalty fees payable by the Group. There is no movement of the provision during the year other than unrealised exchange difference.

Please refer to the annual report 2014 Page 53 to 54 Note 4 –Intangible asset.

There is no movement or subsequent event to these two provision items as at the date of the FY2015 Q3 Results Announcement.

SGX Query 10

We refer to paragraph 9 of the Results Announcement. Please note that this is applicable and comment on whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its previous quarterly results announcement and if there is a variance, to explain why.

Company's Response to SGX Query 10

With respect to the commentary made by the management in the Group's FY2015 Q2 Results Announcement, we would like to report that there are no major changes in the business and the general market environment we have been principally engaged in the past three months ended 30 September 2015 which the management considered significant and critical to be brought to the attention of the shareholders.

By Order of the Board

Mak Tin Sang
Executive Director and Chief Executive Officer
8 December 2015