

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

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FOURTH QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2015**

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The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 14 February 2015 on the Unaudited Fourth Quarter Financial Statement and Dividend Announcement for the Twelve Months Ended 31 December 2015 (“**Q4 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 raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 25 February 2016 (each, a “**SGX Query**”) as follows:

**SGX Query 1**

We note ‘Share of profit, from associates, net of tax’ of RMB16.912 million on page 1 of the Results Announcement. Please disclose why share of the group’s profit was RMB16.9 million when the group is making a loss. Please reconcile reason for the profit of RMB16.9 million and loss incurred for FY2015.

**Company’s Response to SGX Query 1**

The Group took control and began to consolidate the financial accounts of our PRC operating subsidiary in Xu Zhou with effect from 27 May 2015. Accordingly, the Group can only report the financial results of our Xu Zhou subsidiary from 1 January 2015 to 26 May 2015 (when the Group can only treat it as an associate company) on an equity basis and in the form of “share of profits, from associate”.

From 27 May onwards, or in other words starting from the Group’s Q3 and Q4 reporting, the Group has incorporated the financial accounts of our Xu Zhou subsidiary into the Group on a full consolidation basis.

Further to that, Please refer to the following for the detail reconciliation:-

Share of profit from associates

	RMB 'MILLION'
Revenue from Jan to Dec 2015	419.9
Revenue Recognized in Group from Jun – Dec 2015	<u>117.6</u>
Revenue generate from Jan – May 2015	<u>302.3</u>
COGS	<u>(219.3)</u>
Gross profit	<u>83</u>
Selling and distribution expenses	(19.3)
Administration expenses	(6.3)
Finance cost	<u>(10.8)</u>
Profit before taxation	<u>46.6</u>
Tax expenses	<u>(12.1)</u>
Profit after taxation	<u>34.5</u>
Shareholding % in Group	<u>49%</u>
Share of Profit	<u>16.9</u>

## **SGX Query 2**

We note 'Inventories' of RMB144.953 million on page 4 of the Results Announcement. Please provide breakdown and rationale of significant inventory and reason why inventories is more than total revenue in FY2015.

### **Company's Response to SGX Query 2**

Please refer to the Page 9 (note B) of the Group's FY2015 Q4 Results Announcement, which provides 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 RM118 million is from 27 May 2015 to 31 December 2015 instead of the total revenue generated for the full 12 months ended 31 December 2015.

For the avoidance of doubt, the actual revenue generated by Rich Circles for the full 12 months' period from 1 January 2015 to 31 December 2015 was approximately RMB 419.9 million which, when compared to our 31 December inventory level of approximately RMB 144.9 million, was considered as reasonably normal and stable.

The breakdown of the inventory as at 31 December 2015 is as follows:

	RMB'000
Raw materials	32,111
Work in Progress (WIP)	60,485
Finished goods	40,917
Consumable Materials	210
Goods in transit	10,733
Package	400
Others	97
Total	<u>144,953</u>

## **SGX Query 3**

We note 'Trade receivables' of RMB109.777 million on page 4 of the Results Announcement. As the Company's sales for FY2015 was RMB 117.587 million, please explain why substantially all the sales were not collectible.

### **Company's Response to SGX Query 3**

Please refer to the Page 9 (note B) of the Group's FY2015 Q4 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, from 27 May 2015 instead of from 1 January 2015. Thus, the revenue of RM117.587 million is from 27 May 2015 to 31 December 2015 instead of the total revenue generated for the full 12 months ended 31 December 2015.

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 12 months of FY2015 at approximately RMB419.9 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, Please refer to the FY2015 Q4 Results Announcement on page 17 for the relevant aging analysis of trade receivable which is as follows:-

	12M2015 RMB'000
Less than 365 days	<u>57,674</u>

1 year to less than 2 years	39,880
2 years to less than 3 years	8,910
3 years and above	3,313
Total	<u>109,777</u>

#### **SGX Query 4**

We note that the Company has a negative working capital of RMB21.071 million and a negative cash outflow in operating activities of RMB42.243 million. Please explain how is the Company able to meet short term obligations as and when they fall due.

#### **Company's Response to SGX Query 4**

The net current liabilities of approximately RMB21.1 million was mainly due to the maturity of the SME Bonds of RMB180 million issued by our Xuzhou subsidiary two years ago when additional local funds were needed for expansion of production capacity purposes. The local management is currently negotiating with the SME Bonds holders for an extension of the repayment schedule and the Group will provide prompt update on the progress of this to the shareholders from time to time.

Negative cash flow was mainly due to payment to the major supplier to settle long-outstanding amount.

#### **SGX Query 5**

We note advances paid to 'Raw Materials' of RMB45.310 million on page 18 of the Results Announcement. Please provide breakdown and explain why this is so significant.

#### **Company's Response to SGX Query 5**

The management considered such prepayments, which were mostly related to the purchase of main raw material – Magnesium from mining owner directly. The mining owner request for the advance payment as deposit to secure for the long-term contract. The advance payment will be used to offset with the last purchase order before the contract expired.

Please refer to the following detailed breakdown by suppliers

Name of supplier*	Advance amount RMB'000'	Date of prepayment
Supplier 1	12,000	2015.1
Supplier 2	18,000	2015.1
Supplier 3	5,310	2015.2
Supplier 4	10,000	2015.1
Supplier 5	10,000	2015.1
<b>TOTAL</b>	<b>45,310</b>	-

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

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 'Distributor' of RMB22.338 million on page 18 of the Results Announcement. Please provide the following information:-

- (a) Why are advances made to Distributors
- (b) Details on identities of the Distributors and their financial position

### **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 in light of these distributors' high cost of renting, running and promoting the distribution outlets. Thus these advance payments have been treated by the Company as a form of goodwill deposit 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:-

<b>Name of distributor</b>	<b>Date of payment</b>	<b>Amount (RMB'000')</b>
Distributor 1	December 2014	9,149
Distributor 2	September 2014	5,853
Distributor 3	December 2014	4,338
Distributor 4	December 2014	2,998

\* **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. The management team of Xuzhou Zhongwei New Board Co., Ltd ("XZZW") 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 RMB16.505 million on page 18 of the Results Announcement. Please provide details on what the Prepayment is for.

### **Company's Response to SGX Query 7**

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' of RMB29.893 million on page 18 of the Results Announcement. Please provide the following information:-

- Disclose the identities of business associates and their financial position
- Reason for the interest free loan and the basis for the statement.
- Whether the business associates are related to the customers, controlling shareholder, directors of company and the group.

### **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	18,403
TOTAL:	<u>29,893</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 refer to paragraph 10, page 20. Please provide the following information:-

- (a) Disclose order book and provide details of order book
- (b) Whether any outstanding debts owing to Company and quantify
- (c) Clarify and elaborate on "unforeseen difficulties in their respective operations of different nature" and explain why did this affect business with the Company.
- (d) Whether there are any outstanding orders with the Company and how much will this affect the Company's operations going forward and in the FY2016
- (e) Elaborate on how significant was the 2 customers in the past and why it cause the Company's weak financial performance for the fourth quarter 2015.

### **Company's Response to SGX Query 9(a)**

The total outstanding order book is 75 Million RMB which mainly from one of major customer "Beijing Baota Petrochemical Company Limited". Please refer to the company's announcement date 23 March 2015 on the major contract with Beijing Baota Petrochemical Company Limited ("**Baota**"), which had provided as follows:

*"The Board of Directors (the "Board") of Asia Fashion Holdings Limited (the "Company") would like to announce that its subsidiary, Xuzhou Zhongwei New Board Co., Ltd, had on 20 March 2015 entered into a supply contract with Beijing Baota Petrochemical Company Limited to supply construction materials for the building of Baota's two projects – the heavy aromatics and olefins utilization refine factory 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. Barring unforeseen circumstances, this contract is expected to contribute positively to the revenue of the Company and its subsidiaries."*

### **Company's Response to SGX Query 9(b)**

Upon to the date of release of result announcement of FY2015Q4, Total revenue generated from Baota was RMB209.95 million and uncollected outstanding was RMB98.73 million. The outstanding order book from Baota is RMB72.32 million.

### **Company's Response to SGX Query 9(c)**

Based on the information provided, due to the significant decline in the fuel price happened in year 2015 and the fuel price trend from 2016 onwards looks uncertain, Baota has temporarily hold up the construction of its new refinery factory which posed uncertainty to the original delivery schedule of the order book to Baota as mentioned above. The management team of our subsidiary, XZZW, has been working closely with Baota in arriving at a practically executable production and delivery schedule for the above-mentioned outstanding order book.

### **Company's Response to SGX Query 9(d)**

The total outstanding order book is RMB 75 million and this should affect the Company's operations in FY2016 by resulting in an approximately 90% decrease in the Group's production capacity.

**Company's Response to SGX Query 9(e)**

The two major customers contribute to an aggregate of 70% of the total sales generated from January to December 2015, and have contributed to the Group's weak performance in Q4 2015. Please also refer to the Company's response to SGX query 9(c) set out above.

**SGX Query 10**

We refer to paragraph 9 of the Results Announcement. Please 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 Q3 Results Announcement, the New Material business has seen apparent downturn in the past three months ended 31 December 2015 both in terms of declined revenue and increased operating loss for the quarter. The management will continuously monitor the operating environment in this market segment in the forthcoming quarters.

The management is also actively looking for further promising investment opportunities and will update the shareholders on any significant progress from time to time.

By Order of the Board

Mak Ting Sang  
Executive Director and Chief Executive Officer  
29 February 2016