

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 on 14 February 2018 (the “**Announcement**”) on the unaudited second quarter financial statement and dividend announcement for the three months ended 31 December 2017 (“**2Q2018**”). In this regard, the Board would like to respond to the following additional queries (each, an “**SGX Query**”) raised by the SGX as follows:

SGX Query (a)

- (a) It is noted that the Company’s profit after tax of RMB284,000, the increase of administrative expenses by 249% to RMB4.4 million is very material. Please provide a breakdown and elaborate on the material items of expenses incurred and the factors which resulted in the material costs.

Company’s Response to SGX Query (a)

	<u>2Q2018</u> RMB’000	<u>2Q2017</u> RMB’000	<u>Inc./ (Dec.)</u> RMB’000
Hong Kong Office rental expenses	753	132	621
Shanghai Office rental expenses	213	0	213
Staff salary – HK-based	1,540	886	654
Staff salary – PRC-based	578	0	578
Depreciation on fixed assets	314	28	286
Professional fees	296	272	24
Business travel expenses	282	185	97
Other operating expenses	425	265	160
	4,401	1,768	2,633

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Notes:

1. The Hong Kong Office rental expenses has increased by RMB 621,000 as a result of the moving into a much larger and high-grading new office of the Group’s Head Office in Hong Kong.
2. The Shanghai Office rental expenses has increased by RMB 213,000 as a result of the renting of a new office premises as the operating office of Shanghai Daiyoulong from June 2017.

3. The HK-based staff salary expenses increased by RMB 654,000 as a result of the engagement of new executive director and several support staff in the Hong Kong Head Office mainly from March 2017 onwards.
4. The PRC-based staff salary expenses increased by RMB 578,000 as a result of the hiring several local director, senior management and support staff responsible for the overall sales and operational activities of our newly setup office in Shanghai from March 2017 onwards.
5. The depreciation expenses increased by RMB 286,000 as a result of the purchase of significant amount of office furniture and fixtures, company motor vehicles, as well as the furnishing of our new offices in Hong Kong and in Shanghai during the March 2017 to June 2017 timeframe.
6. The increase of business travelling expenses of RMB 97,000 was mainly due to the increased business activities in Shanghai causing more frequent business trips between Hong Kong and Shanghai being made.
7. The increase of other operating expenses of RMB 160,000 was mainly due to the operating expenses incurred by our new Shanghai operating company set up since March 2017.

SGX Query (b)

- (b) As regards the “Profit before taxation from continuing operating” (“PBT”), please elaborate how the income tax expense of RMB1.25 million is derived and what is the tax rate application. Please disclose which of the items are not tax deductible or taxable which caused the tax rate to amount to 81.5% of the Company’s PBT.

Company’s Response to SGX Query (b)

Shanghai Daiyoulong, being the wholly-owned operating subsidiary of the Group, has recorded a profit before tax of approximately RMB 4.80 million and the corresponding PRC profit tax charged at 25% plus a small municipal local tax thereon was approximately RMB 1.25 million as reported.

The reported Group profit before tax of approximately RMB 1.54 million was much lower than Shanghai Daiyoulong’s mainly due to the fact that significant amount of general operating expenses and listing related expenses have been incurred at the listco group level.

SGX Query (c)

- (c) As regards the items of “other receivables” amounting to RMB6.3 million and “accruals and other payables” amounting to RMB24.8 million on page 3, please elaborate on what the amounts comprise of and disclose reasons for the significant amount of accruals and other payables amounting to RMB24.8 million which exceed 1H2018 revenue amounting to RMB16.4 million.

Company’s Response to SGX Query (c)

With regards to the total amount of RMB 6.34 million of “other receivables” standing as at 31 December 2017 (compared to RMB 5.28 million standing as at 30 September 2017), it mainly represented:

- (i) a deposit of RMB 4.0 million made by Shanghai Daiyoulong to Shenzhen Ximei (燐美科技(深圳)有限公司) for the placement of orders for the product of “Jiajinyo” (compared to RMB 4.0 million standing as at 30 September 2017). This deposit will be kept by Shenzhen Ximei until termination of the exclusive distribution agreement upon which will be fully refunded to Shanghai Daiyoulong;

- (ii) a total amount of RMB 0.61 million being made to cooperative business partners as deposits for the entertainment and amusement projects entered into by the Company's subsidiary Asia Entertainment (Hong Kong) Limited (compared to RMB 0.61 million standing as at 30 September 2017); and
- (iii) a total amount of RMB 1.73 million being the rental and utilities deposits and other prepaid expenses made by the Group under its normal course of business and operation (compared to RMB 0.67 million standing as at 30 September 2017). The increase was mainly attributable to the various prepayments made to professionals and printers for engagement of their services in relation to the proposed Rights Issue exercise and the proposed Disposal of the Company's Rich Circle's 54.46% shares to Ms. Li Ya Xin.

With regards to the total amount of RMB 24.76 million of "accruals and other payables" standing as at 31 December 2017 (compared to RMB 128.15 million standing as at 30 September 2017), it mainly represented:

- (i) deposits of RMB 17.50 million received from customers for the purchase of the product "Jiajinyo" by Shanghai Daiyoulong (compared to RMB 121.40 million standing as at 30 September 2017). The substantial decrease was mainly attributable to:
 - (a) the refund of RMB 101.85 million to our PRC local customers previously received and held by Shanghai Daiyoulong as a result and on the basis of the professional advice given by the Company's PRC tax consultant that the keeping of excessively large amount of customers' deposits for an unreasonably long period of time may expose Shanghai Daiyoulong to unnecessary risks both in terms of possible queries from local tax and regulatory authorities of suspicious unreported sales transactions and unforeseeable and uncontrollable cash custodianship problems. As such, the Company has decided not to keep any customers' deposits in excess of sales income reasonably expected to be generated and practically deliverable in the next rolling 12 months' period; and
 - (b) the realization of RMB 2.05 million customers' deposits as sales revenue upon actual delivery of the products; and
- (ii) a total amount of RMB 7.26 million being the accrued operating expenses and professional charges (compared to RMB 6.75 million standing as at 30 September 2017).

Kindly note that, unlike trade payables for the purchase of products which is directly related to the amount of sales revenue generated and the change in inventories during a specific reporting period, the outstanding amount of customers' deposits received as well as accrued operating expenses and professional charges have no direct relationship whatsoever to the amount of revenue generated over a specified reporting period.

SGX Query (d)

- (d) On page 14, the Company disclosed that "the Rich Circles Group is operating and a going concern".
 - (i) Please elaborate what businesses are being operated by Rich Circles. Please elaborate on the basis for the board of directors' views that it is a going concern.
 - (ii) What was Rich Circles' net asset value and profit after tax respectively as at 31 December 2017.
 - (iii) Please disclose whether Rich Circles is able to pay its debts.
 - (iv) Mr Yuan Li Min, is a non-executive Chairman of the Company until his resignation on 27 October 2015. However, he remains on the board of directors of Rich Circles. Please elaborate why this is so and the purpose for retaining him on the board of directors of

Rich Circles when he is no longer a nominee of the Company. In addition, why does the board of directors not have control to appoint the majority of the board of directors in Rich Circles despite its majority interests of 54.47% in Rich Circles.

Company's Response to SGX Query (d)(i)

The Rich Circles Group, through its wholly owned subsidiary Xuzhou Zhongwei, is currently engaged in the selling of new construction materials, mainly from its existing inventories as production has effectively been ceased as a direct result of the default of its SME Bonds due payable on 28 March 2016 which has been reported and disclosed in past quarterly and annual results announcements. As such, the Company still considers the Rich Circles Group as a going concern pending the final outcome of the ongoing negotiations between Xuzhou Zhongwei and the SME Bond holders on a mutually agreeable solution to the final settlement of the default issue.

For more detailed information on the Rich Circles Group (Xuzhou Zhongwei) matters, shareholders may wish to refer to page 11-19 of the 2017 Issuance and Placement Circular dated 10 May 2017 (as released by the Company on 9 May 2017). Shareholders may also wish to refer to the annual report of the Company for the financial year ended 30 June 2017 ("**2017 AR**") and the Company's response to further queries from the SGX-ST on the 2017 AR released by the Company on 6 November 2017.

Company's Response to SGX Query (d)(ii)

Pursuant to the Company's Response to SGX Query (b)(vi) stated in the "Response to Queries from Singapore Exchange Securities Trading Limited" announcement released on 15 December 2017, as already explained in our Annual Report 2016, Annual Report 2017 and the last few quarterly result announcements, all financial books and records as well as important business contracts were all kept under the custody of the Xuzhou SME Bondholders and the Company has limited access to such books and records following the default of repayment of the Xuzhou SME Bonds on 28 March 2016 because the SME Bondholders are extremely cautious and suspicious of possible alterations, deletions, amendments and manipulations being made by the management of Xuzhou Zhongwei and/or the Company (as Xuzhou Zhongwei's majority shareholders) to those books and records to the harm of their respective legal rights and entitlements. The Company has only been able to receive quarterly management financial statements prepared by the local management of Xuzhou Zhongwei which it is unable to independently verify due to the limited access to the book and records.

On the basis of the said unaudited financial statements provided by the local management of Xuzhou Zhongwei, the net asset value of the Rich Circle Group which mainly comprises Xuzhou Zhongwei as at December 2017 was approximately RMB 92.01 million.

On the basis of the said unaudited financial statements provided by the local management of Xuzhou Zhongwei, the operating loss sustained by the Rich Circle Group which mainly comprises Xuzhou Zhongwei for the financial year ended 31 December 2017 was approximately RMB 13.39 million.

Company's Response to SGX Query (d)(iii)

It is unlikely that Rich Circles Enterprise Limited ("**Rich Circles**") would face issues in respect of the repayment of its debts at this stage as its only two creditors, the Company and Li Yaxin, have mutually agreed for the time being not to demand repayment of their outstanding debts pending the final outcome of the current ongoing negotiations between Xuzhou Zhongwei and the SME Bondholders on a mutually agreeable solution to the final settlement of the SME Bonds default issue, which will definitely have a critical and fundamental impact to Rich Circles' continuous ability to pay its debts. The management is closely working together with the local management in Xuzhou in monitoring the progress of the abovementioned negotiations. The management will keep all shareholders updated on the progress of such negotiations from time to time.

Company's Response to SGX Query (d)(iv)

Mr Yuan Li Min has been asked to remain on the board of directors of Rich Circles after his resignation as the non-executive Chairman of the Company by both Ms. Li Ya Xin and some of the major Xuzhou SME Bondholders who preferred a stable and continuous board representation in Xuzhou Zhongwei's overseas ultimate holding company. As a protection measure, the Company has in fact obtained an irrevocable Power of Attorney from Mr. Yuan Li Min on the granting of the exclusive voting power and authority in his capacity as the director of Rich Circles to the prevailing Chief Executive Officer and Executive Director of Asia Fashion Holdings Limited. As such the Company possessed, in legal substance, two-thirds of the effective board seats and an absolute majority voting rights of in the Board of Rich Circles.

SGX Query (e)

- (e) As regards the health supplement product named "Jiajinyo", please provide details on the performance of the distribution of Jiajinyo and the reason for the decrease in gross profit margins to 70% in 2Q2018 as compared to 74.26% in 1H2018.

Company's Response to SGX Query (e)

	<u>2Q2018</u> RMB'000	<u>6M2018</u> RMB'000
Sales revenue	9,026	16,378
Less : cost of sales	2,710	4,215
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Gross sales margin	6,316	12,163
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Gross sales margin %	70.0%	74.26%
	=====	

The reasons for the decrease in gross profit margins to 70% in 2Q2018 as compared to 74.26% in 1H2018 was mainly due to the higher averaged packaging cost incurred in 2Q2018 as a result of using better quality and more expensive packaging materials and more free samples of the product were given out to potential customers in 2Q2018 for promotion and trial purposes.

SGX Query (f)

- (f) As regards the "turnover at the Xuzhou Zhongwei level":
- (i) Please disclose the amount of turnover at Xuzhou Zhongwei compared to previous 2Q2018.
 - (ii) Please disclose the profit/loss generated by Xuzhou Zhongwei.
 - (iii) Please disclose a breakdown of the material contracts.
 - (iv) Please provide a breakdown of expenses incurred at Xuzhou Zhongwei.

Company's Response to SGX Query (f)(i)

On the basis of the unaudited financial statements provided by the local management of Xuzhou Zhongwei as mentioned in Response to SGX Query (d)(ii) above, the amount of turnover at Xuzhou Zhongwei for its full year ended 31 December 2017 was approximately RMB 12.85 million.

Company's Response to SGX Query (f)(ii)

On the basis of the unaudited financial statements provided by the local management of Xuzhou Zhongwei as mentioned in Response to SGX Query (d)(ii) above, the amount of after tax operating loss of Xuzhou Zhongwei for its full year ended 31 December 2017 was approximately RMB 13.39 million.

Company's Response to SGX Query (f)(iii)

Pursuant to the Company's Response to SGX Query (b)(vi) stated in the "Response to Queries from Singapore Exchange Securities Trading Limited" announcement released on 15 December 2017, as already explained in our Annual Report 2016, Annual Report 2017 and the last few quarterly result announcements, all financial books and records as well as important business contracts were all kept under the custody of the Xuzhou SME Bondholders and the Company has limited access to such books and records following the default of repayment of the Xuzhou SME Bonds on 28 March 2016 because the SME Bondholders are extremely cautious and suspicious of possible alterations, deletions, amendments and manipulations being made by the management of Xuzhou Zhongwei and/or the Company (as Xuzhou Zhongwei's majority shareholders) to those books and records to the harm of their respective legal rights and entitlements.

As such, the Company is unable to provide a meaningful breakdown of material contracts.

Company's Response to SGX Query (f)(iv)

On the basis of the unaudited financial statements provided by the local management of Xuzhou Zhongwei as mentioned in Response to SGX Query (d)(ii) above, the breakdown of expenses at Xuzhou Zhongwei for its full year ended 31 December 2017 was as follows:

	<u>FY2017</u> RMB'000
Selling and distribution expenses	4,005
General administration expenses	3,925
Finance expense (SME bond interest)	18,480
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	26,410
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SGX Query (g)

- (g) As regards the "refund of deposits to PRC customers of Shanghai Daiyoulong of approximately RMB101.85 million" on page 17:
- (i) Please elaborate why these customers paid RMB101.85 deposit to the Company. What were the underlying sales in the sales contracted relating to this amount of RMB101.85 million deposits.
 - (ii) As the customers have already paid a deposit for the Company's products, why was the Company not able to fulfill their sales obligations for the underlying sales?
 - (iii) What is the balance customer deposits that have not been refunded by the Company and what is the underlying amount of sales represented by such deposits? When will these sales be completed?
 - (iv) When was the amount of RMB101.85 million of deposit received and when was it refunded? What are the legal implications of the Company returning the deposits to the

customer and will this be deemed as a breach of the sales contract terms and conditions. Please elaborate.

Company's Response to SGX Query (g)(i)

Shanghai Daiyoulong has an averaged number of approximately 800+ customers having placed initial orders for the product "Jiajinyo" in the averaged order amount of RMB 150K per customer with prepaid deposits. This total order amount represented approximately the total sales of 120,000 packs of the product (containing 20 units of pill per pack) with an averaged selling price of RMB 1,000 per pack. The customers are initially requested to pay such order deposits to Shanghai Daiyoulong as a condition for Shanghai Daiyoulong to accept the orders as firm orders to enable it to commit to the minimum annual product procurement contract with Shenzhen Ximei.

Company's Response to SGX Query (g)(ii)

Shanghai Daiyoulong's annual product delivery quantity has been limited by Shenzhen Ximei's ultimate limitation and corresponding commitment on its own annual production schedule of 6 million pill units (or 30,000 packs containing 20 units of pill in each pack) for the initial 12 months' period. Shanghai Daiyoulong has entered into serious discussions with Shenzhen Ximei about the feasibility of increasing its annual production and supply quantity of the product to two to three times of the current level but to no avail as a substantial increase in the production capacity of the product will likely demand for the setup of a new production line whereby the Company is requested to make a significant cash capital investment contribution.

As far as the abovementioned requested significant cash capital investment is concerned, the Company does not consider it financially viable, at least for the time being, to achieve a substantial increase in the production and supply of the product "Jiajinyo" and we would rather focus our best efforts to deliver and to materialize the targeted annual sales of at least 30,000 packs of product within FY2018 (i.e., on or before 30 June 2018).

Company's Response to SGX Query (g)(iii)

The balance customer deposits that have not been refunded by the Company as at 31 December 2017 was approximately RMB 17.50 million and the underlying amount of sales represented by such deposits was approximately 17,500 packs of product which we are confident that all related sales and actual delivery be completed within FY2018 (i.e., on or before 30 June 2018).

Company's Response to SGX Query (g)(iv)

The bulk of the amount of RMB101.85 million of customers' deposits were received during the March to June 2017 timeframe and it was refunded during the October to December 2017 timeframe. There is no specific legal implications of the Company returning the deposits to the customer and this will not be deemed as a breach of the sales contract terms and conditions as proper legal documents including, but not limited to, the initial customer orders and the agreement on refund of unutilized deposits have all been signed and legally executed by both Shanghai Daiyoulong and the respective customers.

SGX Query (h)

- (h) It was disclosed that "The financial performance of Xuzhou Zhongwei's New Material business for this reporting quarter has been continuously weak which was still mainly due to the sharp decline and close to termination of sale made to our two major customers namely Han Energy and Baota both of which have encountered unforeseen difficulties in their respective operations of different nature as reported in the past few quarters. At this point in time the management is almost certain that the economic and operational recoverability of these two major customers... is very remote."
- (i) Please disclose the amounts owing by Han Energy and Baota to Xuzhou Zhongwei.

- (ii) Please elaborate the basis for the board of directors' views (in respect of the operational recoverability of the two major customers).

Company's Response to SGX Query (h)(i)

As disclosed in the Company's Response to SGX Query 5(b) in the Company's announcement made on 13 September 2016 in relation to "response to queries from Singapore Exchange Securities Trading Limited on the unaudited financial statement and dividend announcement for the full 18 months period ended 30 June 2016": "No amounts are currently owing to the Group by Han Energy Co., Ltd. and Beijing Baota Petrochemical Company Limited as on 30 June 2016."

Company's Response to SGX Query (h)(ii)

For the reasons set out in, *inter alia*, sections 2.1.7 and 2.1.8 of the 2017 Issuance and Placement Circular dated 10 May 2017, the board of directors is of the opinion that the likelihood of the economic and operational recovery of Han Energy Co., Ltd. and Beijing Baota Petrochemical Company Limited is low.

SGX Query (i)

- (i) It was disclosed "in this reporting quarter, the Group has recorded a direct sales revenue of RMB9.03 million and has reported for the second consecutive quarter a net operating profit after tax of RMB284,000. Please disclose the known factors or events that may affect the sales of "Jiajinyo" in the next reporting period and the next 12 months.

Company's Response to SGX Query (i)

The confirmed sales backlog orders with deposits received secured by Shanghai Daiyoulong as at 31 December 2017 was approximately RMB 20.8 million (net of VAT). Barring any unforeseeable circumstances, the Company is confident that the 2H2018 sales performance shall at least be comparable with 1H2018.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
8 March 2018