

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1 General information

The financial statements of Asia Fashion Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on the date of the Statement By Directors.

The Company (Registration No.41195) is incorporated as an exempt company with limited liability, in Bermuda and listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The registered office of the Company is located at Claredon House 2 Church Street Hamilton HM 11 Bermuda. The principal place of business of the Group is located at Jimei Textile Park, Rongqiao Economic Technnology Development Zone, Fuqing City, Fujian Province 350301, the People’s Republic of China (“PRC”). Following the disposal of the Qianfeng International Limited group of companies (see note 28), the principal place of business of the Group is Industry Developing District of East City, Pizhou City, Jiangsu Province, Xuzhou Zhongwei New Board Co., Ltd, Post code: 221300.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 7 to the financial statements.

2(a) Basis for Disclaimer of Opinion – Auditors’ report

The other matters as described in paragraph 3 - Disclosures, presentation, other matters and subsequent events, in the Basis for Disclaimer of Opinion paragraph in the auditors’ report are as follows which forms an integral part of the Auditors’ report:

Going concern

At 31 December 2014, the Company had a deficit in shareholders’ funds of approximately RMB 38.1 million, and the Group and the Company had net current liabilities of approximately RMB 31.6 million and RMB 41.2 million respectively.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group’s and the Company’s ability to continue to operate as going concerns. The validity of the going concern assumption, on which these financial statements are prepared, depends on continued support from its lenders and shareholders and/or the availability of other means of financial support.

Subsequent to 31 December 2014, the Group has obtained funds from new share placements and convertible bonds amounting to S\$8.938 million (approximately RMB 40.21 million). In addition, the Company and the Group has loaned RMB 12 million (S\$2.66 million) to the associated company, Rich Circles Enterprise Limited, as additional working capital.

In preparing the financial statements, the directors have taken into account all information currently available to them in relation to these uncertainties. At the date of this report, the directors believe that there is no significant uncertainty that financial support will continue be available to the Group and the Company.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary if the Company and the Group are unable to continue as going concerns.

The Company

We have not been able to satisfy ourselves as to the completeness and appropriateness of the provision for compensation to distributors amounting to approximately RMB 8.6 million and provision for minimum guaranteed royalty amounting to approximately RMB 5.3 million as at 31 December 2014. In connection with the disposal of the Disposal Group, Mr. Lin Daoqin had made an undertaking to the Company to take up all future claims and liabilities associated with the Disposal Group including the above two liabilities which may arise subsequent to the disposal of the Disposal Group to Chengde Industrial Co., Limited on 2 February 2015. Notwithstanding this, we have been unable to obtain independent confirmations nor were we able to perform satisfactory alternative procedures to ascertain whether these balances were properly stated as at that date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2(a) Basis for Disclaimer of Opinion – Auditors’ report (Cont’d)

Unverified transactions – the associated company

During the course of our audit, we have not been able to gain access to sufficient documentation that will adequately support certain transactions recorded in the accounting books of the Company’s and the Group’s 49% interest in the associated company, Rich Circles Enterprise Limited, and its wholly-owned subsidiaries, China Construction Material (Hong Kong) Limited, Zhongchuang (Xuzhou) Construction Material Co., Ltd and of Xuzhou Zhongwei New Board Co., Ltd (formerly known as “Xuzhou Zhongsen Tonghao New Board Co., Ltd”) (collectively known as the “Associated Company Group”). These transactions relate to the appropriateness of the share of results of the Associated Company Group by the Group and the goodwill arising from the acquisition of the entire interest of China Construction Material (Hong Kong) Limited (and its subsidiaries) by Rich Circles Enterprise Limited on 27 June 2014.

During the financial year, the Company had provided a loan of RMB 49 million to the associated company, Rich Circles Enterprise Limited, which is repayable on 18 June 2016. We have been unable to obtain sufficient evidence to ascertain the recoverability of this loan including the interest receivable of RMB1.851 million as at 31 December 2014. The financial statements do not include any adjustments that would be necessary if the amount are not recoverable.

2(b) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (“FRS”) including related Interpretations promulgated by the Accounting Standards Council (“ASC”) of Singapore. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies set out below.

The financial statements are presented in Renminbi (RMB) which is the Company’s functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a high degree of judgement are described below.

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the respective entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management’s assessment of the economic environment in which the entities operate and the respective entities’ process of determining sales prices.

Significant judgements in applying accounting policies

Income tax (Note 25)

Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.