

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

**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING
LIMITED ON THE UNAUDITED FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2016**

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 14 November 2016 on the Unaudited Financial Statement and Dividend Announcement for the first quarter ended 30 September 2016 (“**1Q2017**”). 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 refer to page 1 of the Results Announcement. We note that the Company has recorded zero Revenue for the full year. Is the Company a cash company pursuant to Listing Rule 1018? If not, please explain and provide justification.

Company’s Response to SGX Query 1

As regards to Listing Rule 1018 of the SGX-ST Listing Manual, the Company understands that the rule would apply usually to a company that has disposed of all or substantially all of its undertaking such that its assets consist wholly or substantially of cash or short-dated securities. In the Company’s case, it holds shares in operational companies and as such, the assets of the Company do not consist wholly or substantially of cash or short-dated securities.

To elaborate, the Company currently owns assets that have operating businesses. The Company’s current core business comprises of the business of Xuzhou Zhongwei New Board Co, Ltd (“**Xuzhou Zhongwei**”) and operates in the business of designing, manufacturing and sales of new materials business products such as: (i) magnesium multifunctional boards, which are fundamental boards that can be used as ceiling panels, wall panels, insulation board, fireproof board, and waterproof board, and can either be directly sold to customers or further processed for building and decorative purposes; (ii) floor and grainy boards, which are produced by further processing of the magnesium multifunctional board and are processed to shield the board against wear, scratch, and stain, and can be used as decorative panels for, inter alia, home, hotels, and office flooring; (iii) decorative boards, which are produced from magnesium multifunctional boards by coating the surfaces with aluminium or magnesium compounds, and can be widely used to create cabinets and other kinds of interior and exterior decorations; and (iv) aluminium products, which are produced with transfer printing technology, allowing the final product to look like natural materials such as marble and granite, and can be either sold as finished goods or used with magnesium multifunctional board to produce decorative boards.

In addition, the Company wishes to emphasize the following:

1. The Company has reported “zero Revenue” solely because it had adopted the more appropriate basis of accounting of “equity accounting for associated company” instead of “full consolidation for subsidiary company” as a direct result of the relative restrictions on its effective operating control over Xuzhou Zhongwei imposed by the SME Bondholders pursuant to Xuzhou Zhongwei’s default in the prompt repayment of the SME Bond on 28 March 2016, as highlighted in the Results Announcement.
2. The Company’s auditors, Foo Kon Tan LLP (“**FKT**”), has assessed the situation and concurred with the management’s view and decision in adopting the “equity accounting for associated company” basis of accounting in this year’s financial result reporting.

3. Despite the fact that Xuzhou Zhongwei's production operation has slowed down significantly in recent quarters and subsequently further slowed down when negotiations with the SME Bondholders were ongoing, it still carries out its operating business as detailed in point 1 above. It continues to record sales and hold inventory, and as such the Company is of the view that Xuzhou Zhongwei is continuing an operating business. In particular, the Company wishes to emphasize that the actual revenues as reported by Xuzhou Zhongwei were as follows:
 - a. the revenue of Xuzhou Zhongwei for the 3 month ended 30 June 2015 was RMB 373.4 million;
 - b. the revenue of Xuzhou Zhongwei for the 6 month period ended 31 December 2015 was RMB41.5 million;
 - c. the revenue of Xuzhou Zhongwei for the 6 month period ended 30 June 2016 was RMB11.6 million; and
 - d. the revenue of Xuzhou Zhongwei for the 3 month period ended 30 September 2016 was RMB3.2 million.
4. The main asset of the Company, its subsidiaries and/or associated companies (the "**Group**") as at 30 September 2016 was in two shareholders' loans of an aggregate amount of RMB61 million to Rich Circles Enterprise Limited ("**Rich Circles**"), which were provided as part of its investment in Xuzhou Zhongwei and its business. This loan was used to fund the operational costs of Xuzhou Zhongwei's business and is part of the Company's investment in Xuzhou Zhongwei.
5. Notwithstanding the difficulties faced by the Company and Xuzhou Zhongwei in relation to the SME Bonds, the business of Xuzhou Zhongwei currently still forms part of the Company's business for the following reasons:
 - a. Mr Huo Wei Sheng, the current executive director of the Company and the local legal representative of Xuzhou Zhongwei, continues to be actively engaged in its ongoing operations including, but not limited to, the current negotiations with the SME Bondholders for a mutually acceptable settlement agreement;
 - b. the Company indirectly owns 54.46% of Xuzhou Zhongwei and still has direct contact with the other key operating personnel of Xuzhou Zhongwei, who are supervised directly by Mr Huo Wei Sheng;
 - c. notwithstanding the loss of Ms. Li Ya Xin's support, the Company still remains the single largest indirect shareholder in Xuzhou Zhongwei and is entitled to its rights arising as shareholder in respect thereof;
 - d. the Company continues to observe and monitor the business of Xuzhou Zhongwei and participates in negotiations with the SME Bondholders;
 - e. the Company continues to enjoy the economic benefits of its investment in Xuzhou Zhongwei; and
 - f. while the Company may not direct all management activities in Xuzhou Zhongwei, it has the reasonable right to participate in the formulation of its business strategies and important operating issues discussion through Mr. Huo.
6. The Company had incorporated two new subsidiaries, Asia Entertainment Limited and Asia Entertainment (Hong Kong) Limited (collectively, the "**Subsidiaries**"), in September 2016 to allow the Company to be directly and actively involved in the business in the media and entertainment industry in Hong Kong and in the mainland of the People's Republic of China.

Notwithstanding the SGX's rejection of the Company's circular submitted on the proposed acquisition of 70% equity interest in Boya Lianli on 23 September 2016, the Subsidiaries, in close cooperation with some well-known Hong Kong-based media and entertainment players, have thereafter worked together on a couple of star concerts to be held in Hong Kong in November and the revenue generated from this new business area will be reported in the Company's next quarterly results announcement. The subsidiaries has also signed a couple of memorandum of understanding and/or agreements with other well-known Hong Kong-based industry players to co-operate to organise entertainment events in Hong Kong and abroad as well as in the shooting of theatrical and internet movies in FY2017 and beyond. As such, the management is highly confident that the Company will participate more actively in these new promising business areas, which will provide the Company with another active and fast growing business area going forward.

Therefore, in light of the fact that the Company's assets do not consist wholly or substantially of cash or short-dated securities, the Company has subsidiaries with operating businesses and the Company has started direct businesses in the new emerging and promising media and entertainment industry, the Company submits that it is not a cash company pursuant to Listing Rule 1018 of the SGX-ST Listing Manual.

SGX Query 2

We refer to page 1 of the Results Announcement. We note that 'Administrative expenses' has decreased by 54% from RMB3.576 million in 3Q2015 to RMB1.654 million in 1Q2017. Please provide breakdown and reasons for significant administrative fees of RMB3.5 million despite Company has no operations and zero revenue.

Company's Response to SGX Query 2

The detailed breakdown of "Administrative expenses" for 1Q2017 and 3Q2015 respectively was as follows:

	<u>1Q2017</u> RMB'000	<u>3Q2015</u> RMB'000
Administrative expenses incurred at the listco (i.e. Company) level	1,654	2,229
Administrative expenses incurred at the Xuzhou Zhongwei level - Only consolidated in 3Q2015	-	1,347
Total reported Administrative expenses	1,654	3,576
	=====	=====

As explained in query 1 above, the Company has adopted the "equity accounting" methodology in its financial reporting which is different from the "full consolidation" methodology adopted in the reporting quarter ended 30 September 2015. On an equitable comparison basis, the Company's administrative expenses on the listco (i.e. Company) level, which mainly included remuneration of directors and management staff, office rental, business travelling expenses and professional fees incurred, was reduced from RMB2,229K to RMB1,654K as a result of active cost reduction actions taken in the reporting quarter ended 30 September 2016.

SGX Query 3

We refer to page 2 of the Results Announcement. Please provide the following information:-

- (a) Nature of these interest expenses.
- (b) Provide update on the status of these and repayment dates.
- (c) How will principal and other outstanding amounts be repaid.

- (d) Under the Company's balance sheet, bonds payable are listed as RMB21.614 million. Please reconcile with page 2 of the Results Announcement.

Company's Response to SGX Query 3(a)

The detailed breakdown of "Interest expenses" for 1Q2017 and 3Q2015 respectively was as follows:

	<u>1Q2017</u> RMB'000	<u>3Q2015</u> RMB'000
Interest expenses incurred on 7% CB issued by the Company	226	221
Interest expenses incurred on 10% Coupon Bonds issued by the Company	215	211
Interest expenses incurred on 7% Bonds issued by the Company to Ms. Li Yu Huan and fully settled in October 2015	-	856
Interest expenses incurred by the Company on Loans of RMB51 million due to Ms. Li Ya Xin from Rich Circles Group on full consolidation basis for 3Q2015 only	-	892
Interest expenses incurred On 10% SME Loan at Xuzhou Zhongwei - Only consolidated in 3Q2015	-	4,500
 Total reported Interest expenses	441	6,680
	=====	=====

As explained in query 1 above, the Company has adopted the "equity accounting" methodology in its financial reporting which is different from the "full consolidation" methodology adopted in the reporting quarter ended 30 September 2015. On an equitable comparison basis, the Company's administrative expenses on the listco (i.e the Company) level, which mainly included remuneration of directors and management staff, office rental, business travelling expenses and professional fees incurred, been reduced from RMB2,229K to RMB1,654K as a result of active cost reduction actions taken in the reporting quarter ended 30 September 2016.

Company's Response to SGX Query 3(b)

The repayment date of the 7% Convertible Bond is 4 March 2017, and S\$2,986,000 (principal and accrued interests) remains unpaid as at the date hereof.

Repayment date of the 10% Coupon Bonds is 4 March 2017, and HK\$10 million remains unpaid as at the date hereof.

Company's Response to SGX Query 3(c)

The Company intends to undertake further fund raising exercises, and proceeds from the intended fund raising exercises will be partly deployed to repay the Bonds and liabilities specified in the Results Announcement and partly deployed to support the development of the Company's new business in the media and entertainment area in Hong Kong and China as explained above.

The Company will provide prompt updates to the shareholders on the above-mentioned fund raising exercise(s) from time to time.

Company's Response to SGX Query 3(d)

The detailed breakdown of the “Bonds payable” standing as at 30 September 2016 and as at 30 June 2016 respectively was as follows:

	<u>30/9/16</u> RMB'000	<u>30/6/16</u> RMB'000
7% CB issued by AFH (S\$2.66 million @ 5.756)	13,008	13,008
10% Straight Bond issued by AFH (HK\$10 million @ 0.8606)	8,606	8,606
	—————	—————
Total Bonds payable	21,614 =====	21,614 =====

SGX Query 4

We refer to page 3 of the Results Announcement. We note ‘Loan to associates’ of RMB61 million. Please provide the following information:-

- (a) Details on the associates and the business of associates.
- (b) Use of proceeds.
- (c) Terms of loans.
- (d) When repayable and whether will they be able to repay.

Company's Response to SGX Query 4(a), 4(b) and 4(c)

Full details about the associates, Rich Circles Enterprise Limited and its wholly owned subsidiaries (together referred to as the “**Rich Circles Group**”) and the relevant loan to the associates have been disclosed under Note 5 to the Financial Statements (page 55 to page 60) of the Company’s 2016 Annual Report recently dispatched to the shareholders.

Since 30 June 2016 till date of this response, there has been no change to the status of the associates nor to the loan amount due from the associates.

Company's Response to SGX Query 4(d)

The loan to associates is repayable on demand which is the same term applicable to the RMB51 million loan extended by Ms. Li Ya Xin, the 44.54% shareholder of the associates, to these associates.

According to the latest management account of Xuzhou Zhongwei prepared as at 30 June 2016 as presented in page 55 of the Company’s 2016 Annual Report, Xuzhou Zhongwei still carried a net asset value of approximately RMB193 million which is sufficient for the settlement of the loans due to both the Company and Ms. Li Ya Xin. As such the Company has not made any impairment provision for these loans.

However, the management has already reported in previous quarterly results announcements about the default of the due repayment of the RMB180 million SME Bonds, which may have a significant impact on the operations of Xuzhou Zhongwei. There are currently ongoing negotiations between the Xuzhou Zhongwei local management and the SME Bondholders on the settlement of this matter, and the management will closely monitor and examine the overall situation of Xuzhou Zhongwei and the possible financial impact to the Company following the final outcome of the negotiation. The Company will keep shareholders updated on significant developments on this from time to time.

SGX Query 5

We refer to page 3 of the Results Announcement. We note ‘Bonds payable’ of RMB21.614 million. Please provide details and terms of Bonds.

Company’s Response to SGX Query 5

The detailed breakdown of the “Bonds payable” standing as at 30 September 2016 and as at 30 June 2016 respectively was as follows:

	<u>30/9/16</u> RMB'000	<u>30/6/16</u> RMB'000
7% Convertible Bonds issued by the Company (S\$2.66 million @ 5.756)	13,008	13,008
10% Straight Bond issued by the Company (HK\$10 million @ 0.8606)	8,606	8,606
	—————	—————
Total Bonds payable	21,614 =====	21,614 =====

S\$2.66 million convertible bonds

On 5 March 2015, the Company entered into a convertible bond agreement with Alternus Capital Holdings Limited (bond holder) to issue S\$2.66 million of convertible bonds for a period of 2 years bearing an interest rate of 7% per annum. The maturity date of the convertible bond is 4 March 2017. The applicable conversion price of this convertible bonds is S\$1.12 per share.

HK\$10 million straight bond

On 4 March 2015, the Company issued a 2-year HK\$10 million bond certificate to Prime Pacific Investments Limited (the bond holder) whereby the bond holder has agreed to subscribe for HK\$10 million of bond. The bond shall bear a simple interest rate from the issue date at the rate of 10% per annum from the issue date up to and including the date of redemption of the bonds.

There is no conversion feature in the bond which enable the bond holder to convert the bond into the equity and/or equity securities of the Company.

SGX Query 6

We refer to page 3 of the Results Announcement. We note that ‘Amount due from associates’ has increased from RMB4.051 million to RMB6.887 million. Please provide the following information :-

- Provide breakdown and disclose identity of respective associates
- Reasons for the significant increase in ‘Amount due from associates’ and nature of transactions.

Company’s Response to SGX Query 6(a)

The relevant amount involved should be ‘Amount due to associates’ instead of ‘Amount due from associates’ and the detailed breakdown are as follows:

30/9/16 30/6/16

	RMB'000	RMB'000
Amount due to Rich Circles	4,043	4,043
Amount due to China Construction Material (Hong Kong) Limited ("CCMH")	2,844	8
	=====	=====
Total Bonds payable	6,887	4,051
	=====	=====

Company's Response to SGX Query 6(b)

There is no change in the amount due to Rich Circles during 1Q2017.

The Company has borrowed an additional amount of RMB2,836,000 working fund from CCMH as CCMH has surplus working capital on hand while the Company needs extra cash for settlement of some of its liabilities and operating expenses during 1Q2017.

SGX Query 7

We refer to page 4 of the Results Announcement. We note 'Bonds payable' of RMB8.606 million was incurred due to a bond subscription agreement dated 4 March 2015 entered into between the Company and Prime Pacific Investments Limited. Please provide details of this entity – Prime Pacific Investments Limited.

Company's Response to SGX Query 7

Prime Pacific Investments Limited is a company incorporated in Hong Kong and is a wholly owned subsidiary of a Hong Kong Main Board listed company.

SGX Query 8

We refer to page 5 of the Results Announcement. Please review if the correct comparison period is used as the requirement is for "a cahflow statement.....for the corresponding period of the immediately preceding financial year". To provide as required.

Company's Response to SGX Query 8

Referring to the consolidated statement of cash flows for the Group presented in page 5 of the Results Announcement, we wish to clarify that the headings of column 2 which should be read as "3Q2015" (the quarter ended 30 September 2015) instead of "9M2015". We have re-checked and confirmed that the figures shown in page 5 are all factually correct.

SGX Query 9

We refer to page 5 of the Results Announcement. We note the increase in amount due to associates of RMB2.836 million. Please provide the reasons for this increase, use in proceeds, term of loan and repayment.

Company's Response to SGX Query 9

As explained in the Company's Response to SGX Query 6(b) above, the Company has borrowed an additional amount of RMB2,836,000 working fund from CCMH as CCMH has surplus working capital on hand while the Company needs extra cash for settlement of some of its liabilities and operating

expenses during 1Q2017. This is recorded as a current account with the associates and is repayable on demand, free of interest.

SGX Query 10

We refer to page 6 of the Results Announcement. We note the statement that “the proceeds of offerings pursuant to Chapter 8 undertaken by the Company have been used for the intended purposes and the Company will be making further announcements on the details from time to time.” When were these announcements made? How much received to date and how much utilized? What are the use of proceeds of S\$2.4 million consideration for disposal of QIL?

Company's Response to SGX Query 10

As explained in Note 15 (page 69) of the Company’s 2016 Annual Report, the disposal involved the disposal of Qianfeng International Limited and its subsidiaries, Fujian Qianfeng Textile Technology Co. Ltd. and Fujian Jiamei Textile Company Limited. The aggregate consideration sum for the purchase of the sales shares including the accruals for compensations to distributors and the minimum guaranteed royalty fees payable assumed by the purchaser, Chengde Industrial Co., Limited, is an amount of S\$2.4 million (equivalent to then approximately RMB10.9 million) in cash and transfer of liabilities assumed for accruals of RMB13.9 million.

Following the disposal of Qianfeng Group, the Company was released and discharged from all liabilities including the carried forward amount owing to Qianfeng Group of RMB9.6 million.

Qianfeng Group has been deconsolidated from the Group for the financial period ended 30 June 2016 and hence does not have any financial impact to the financial position of the Group for 1Q2017.

The Company has undertaken placement exercises and issued convertible securities for an aggregate gross amount totalling S\$9.088 million in the past two years. All of the amounts were utilised in the manner announced by the Company on 19 March 2015, 27 March 2015, 7 July 2015 and 2 September 2016.

SGX Query 11

We refer to page 10 of the Results Announcement on “Rich Circles Group”. Please provide the following information:-

- (a) Is Rich Circles Group still a going concern? Are they still operating?
- (b) Who are the directors of Rich Circles Group? Who are the controlling shareholders of Rich Circles Group? Any relationships to the Company, Directors and its controlling shareholders and their respective associates?
- (c) To provide details of Rich Circles Group.
- (d) How will they be able to repay loan to Company? Why is Company still extending new loans? What are the chances of recovery?

Company's Response to SGX Query 11(a)

Rich Circles Group is operating and is still a going concern.

Company's Response to SGX Query 11(b)

The current directors of Rich Circles Group is Mr. Mak Tin Sang (representing the Company), Ms. Li Ya Xin (representing herself as the second single largest shareholder of Rich Circles Group) and Mr. Yuan Li Min as an independent director.

As far as shareholding is concerned, the Company owns 54.46% while Ms. Li Ya Xin owns 45.54% of Rich Circles Group.

Mr. Yuan Li Min was once the Non-Executive Chairman of the Company until he resigned on 27 October 2015.

Other directors of the Company do not have any relationship with the Rich Circles Group save for the Company’s shareholding interest in the Rich Circles Group.

Company's Response to SGX Query 11(c)

Rich Circles Group comprises of:

- i) Rich Circles Enterprise Limited ("Rich Circles"), a BVI incorporated company, in which the Company owns 54.46% of its equity as at 30 September 2016 while Ms. Li Ya Xin owns the remaining 45.54% of its equity. The principal activities of this company is "Investment Holding";
- ii) CCMH, a Hong Kong incorporated company, is a wholly-owned subsidiary of RCEL. The principal activities of this company is "Investment Holding";
- iii) Zhongchuang (Xuzhou) Construction Material Co. Ltd. ("XZZC"), a PRC incorporated company, is a wholly-owned subsidiary of CCMH. The principal activities of this company is "Investment Holding"; and
- iv) Xuzhou Zhongwei New Board Co. Ltd. ("Xuzhou Zhongwei"), a PRC incorporated company, is a wholly-owned subsidiary of XZZC. The principal activities of this company is the manufacturing and sales of new materials as set out in the Company's response to SGX Query 1.

Company's Response to SGX Query 11(d)

As stated in page 55 of the Company's 2016 Annual Report, Xuzhou Zhongwei reported a net asset value of RMB193,233K as at 30 June 2016 which is sufficient for the repayment of its total combined shareholders' loan of RMB112 million due to the Company of RMB61 million and to Ms. Li Ya Xin of RMB51 million respectively.

The company has decided to extend an additional shareholder's loan of RMB12 million to Rich Circles Group in exchange for Ms. Li Ya Xin's agreement to allow the Company to increase our equity in Rich Circles Group from 49% to 54.46% at the expense of her equity dilution from 51% to 45.54%.

As explained above, the reported net asset value of the Rich Circles Group is sufficient to repay its loans extended by the existing shareholders. However, as Xuzhou Zhongwei has defaulted its payment to the SME Bondholders on 28 March 2016 upon the maturity of the Bonds, the Company is in the process of negotiation with the SME Bondholders on a mutually agreeable settlement plan of the default, and the management team is closely monitoring the progress and outcome of such negotiation to determine if there is any significant financial impact to the recovery of this loan from Rich Circles Group. The management will provide updates on the progress of this negotiation to our shareholder from time to time.

SGX Query 12

We refer to page 11 of the Results Announcement. Please provide the following information:-

- (a) What happened that caused the financial negotiation? Provide background of Ms. Li Ya Xin and what actions is under negotiation?
- (b) "...default of repayment of the RMB180 million SME Bond to the respective bondholders, the bondholders have been in a position to take whatever proper legal action(s) in Xuzhou against Zhongwei for the recovery of their bonds". Any legal action filed against Rich Circles? Disclose details.
- (c) "...the Company is informed by the local management of Zhongwei that the daily operation of Zhongwei has been purportedly under observation by a major bondholder..." Who is the major bondholder and how much extended by bondholder? How is it being monitored? Provide background of this bondholder. Who is the legal representative of Rich Circle? Did auditors note any significant findings, to disclose details.
- (d) "...we have been informed by Ms. Li Ya Xin that she has granted a new irrevocable POA to a person who has a very strong and friendly business relationship with the bondholders..." Who is the "person"? To disclose identity and background which makes him suitable. What is the source of the POA's relationship with the bondholders? To provide more information.
- (e) "...the current shareholders of Rich Circles Group will not be able to raise cash funds of as much as RMB180 million for injection into Zhongwei to repay the SME Bonds in the near

- foreseeable future". Is Rich Circle still operating? What is its orderbook and is it able to operate as a going concern? What was the use of proceeds from the bonds? What was original intention of the use of proceeds?
- (f) "...the control possessed by the Company over the Rich Circles Group has been apparently weakened by the act of Ms. Li Ya xin". Please elaborate how Company's control has been weakened.
 - (g) "...the local management including, but not limited to, Mr. Huo Wei Sheng has strong tendency to work closely with the bondholders in all aspects of daily normal operations of Zhongwei...". Who is Mr. Huo Wei Sheng? What is his role with Zhongwei?
 - (h) "...the Company will treat Rich Circles Group as associated company and adopt the "equity" accounting basis for recording Rich Circles Group's financial performance from 1 January 2015 to 30 June 2016, which is in fact consistent with the Company's accounting treatment of the Rich Circles Group for the financial year ended 31 December 2014. The auditors concurred with the management's view and decision". Who were the auditors of Rich Circles? Did the Company's auditors perform an audit into books of Rich Circles?

Company's Response to SGX Query 12(a)

As explained in response to SGX Query 11(d) above, the reason for the financial negotiation is caused by the fact that Xuzhou Zhongwei has defaulted its payment to the SME Bondholders on 28 March 2016 upon the Bond maturity. As such, the local management of Xuzhou Zhongwei are in the process of negotiation with the SME Bondholders on a mutually agreeable settlement plan of the default.

Ms. Li Ya Xin is the one of the major shareholders of Rich Circles Group owning 45.54% of its equity as at 30 September 2016. She has also extended a shareholder's loan of RMB51 million to Rich Circles Group in proportion to her equity interest in Rich Circles Group.

Since negotiation is still undergoing, we are not in a position to disclose sensitive but unresolved details of the negotiation at this point in time. However, the Company will update shareholders on any material developments on this.

Company's Response to SGX Query 12(b)

Insofar as the Company is aware, the SME Bondholders have not yet taken any legal action against Xuzhou Zhongwei in relation to the default of repayment of the SME Bonds. According to the local management, the SME Bondholders tend to attempt to resolve matters through negotiations to reach a mutually acceptable commercial settlement agreement before taking specific legal actions if such attempts fail.

No action has been filed against Rich Circles to date as it is not a borrower of any financial facilities nor a guarantor of Xuzhou Zhongwei's SME Bonds.

Company's Response to SGX Query 12(c)

The Company is unable to publicly disclose the identity and background of the major bondholder as this is confidential sensitive information which will result in the breach of confidentiality clauses in agreements between the Company and the SME Bondholders. The major bondholder has stationed representatives on the site of the factory of Xuzhou Zhongwei, operations of which have been slowed down in the recent months.

Rich Circles does not have a legal representative as it is a British Virgin Islands company.

The auditors has provide full disclosure on their audit findings on the subject SME Bonds and its related default in repayment in the Company's 2016 Annual Report (please refer to pages 55 to pages 60 of the 2016 Annual Report).

Company's Response to SGX Query 12(d)

Ms. Li Ya Xin has given a power of attorney to a Mr. Wong, who is her brother-in-law. As informed by Ms. Li Ya Xin, Mr. Wong is not related to the SME Bondholders in all respects but possesses required

negotiation skills and commercial talents to represent her and to protect her persoanl interests in the said negotiation.

Company's Response to SGX Query 12(e)

Rich Circles is an investment holding vehicle which is still operational. As an investment vehicle, it has no order books. Rich Circles will be able to operate as a going concern.

The original intended and actual use of proceeds of the SME Bond raised by Xuzhou Zhongwei before the Company's acquisition was to expand Xuzhou Zhongwei's production capacity and to purchase significant amount of raw materials in anticipation of big repeating orders coming from Beijing Baota Petrochemical Company Limited ("Baota") and Han Energy Co., Ltd ("Han Energy"). The SME bond was raised before Xuzhou Zhongwei was acquired by Rich Circles.

Whether Xuzhou Zhongwei can operate as a going concern will depend on the results of of the recently ongoing negotiation between Xuzhou Zhongwei and the SME Bondholders in respect of the default in repayment of the SME Bonds. The management will provide prompt updates on the progress and result of the negotiation to our shareholders from time to time.

Company's Response to SGX Query 12(f)

Since the acquisition of Rich Circles Group's share by the Company, Ms Li Ya Xin has granted an irrevocable POA to Mr. Yuan Li Min who was the then Director and representative of the Company. This in substance provided the Company with 100% complete "control" on the voting, directorship and operational decision making of the Rich Circles Group. However, following the lapse of the said POA in April 2016, Ms. Li Ya Xin has refused to renew or to extend such POA to Mr. Yuan or any other director or representative of the Company. As such, the Company no longer possesses absolute "control" over the Rich Circles Group going forward.

Ms. Li Ya Xin also started to work more closely together with the SME Bondholders in view of getting a good settlement offer from the SME Bondholders with respect to her 45.54% shareholding interest in Rich Circles Group.

Without the co-operation and support from Ms. Li Ya Xin, the Company will not be able to pass special resolutions requiring an affirmative vote of 75% or more.

Company's Response to SGX Query 12(g)

Mr. Huo Wei Sheng is the current executive director of the Company and the legal representative of Xuzhou Zhongwei. He is mainly responsible for the daily management of the Xuzhou Zhongwei local operation.

Company's Response to SGX Query 12(h)

Rich Circles is exempt from audit under the Ordinance laws of Hongkong. However, our auditors has performed all necessary audit review and tests on the books and accounts of Rich Circles Enterprise Limited and China Construction Material (Hong Kong) Limited for the financial period ended 30 June 2016.

SGX Query 13

We refer to page 15 of the Results Announcement. Please provide the following information:-

- (a) "... turnover at the Xuzhou Zhongwei level has dropped significantly in the past few quarters as a result of discontinued orders from Baota and Han Energy respectively". When and why did Baota and Han Energy cancel the order? What is orderbook?
- (b) "... the gain of approximately RMB14.8 million, being the difference of the transacted share price at 30 September 2015 of S\$0.0271 per share and the price of the placement share at S\$0.06 per share for an aggregate amount of 100,397,362 new ordinary shares, recorded in profit or loss for the placement of new shares to Ms Li Yu Huan in contra with the outstanding bond due to her on

30 September 2015". Please provide background on this and show calculation. Is Mr Li Yu Huan related to Ms Li Ya Xin?

Company's Response to SGX Query 13(a)

The Company has repeatedly reported on the discontinued orders from Baota and Han Energy in its quarterly results announcements as follows:

- (a) This has been highlighted in Section 10 of the Company's results announcement for the fifteen months ended 31 March 2016 released on 15 May 2016.
- (b) This has been highlighted in Section 10 of the Company's results announcement for the twelve months ended 31 December 2015 released on 13 February 2016.

The unfulfilled orders were cancelled by Han Energy due to the suspension of the shares of its holding company, Hanergy Thin Film Power Group Ltd., on the Hong Kong Stock Exchange.

Baota had then communicated to the Company via Xuzhou Zhongwei that it had financial difficulties, resulting in the cancellation of its orders.

Currently, there are no orders in the order books from both Han Energy and Baota.

Company's Response to SGX Query 13(b)

Please refer to Annex A for the calculation and background.

Ms. Li Yu Huan does not have any relationship with Ms. Li Ya Xin.

SGX Query 14

We refer to page 12 of the Results Announcement. We note 'Amount due to associates of RMB6.89 million (RMB4.05 million as of 30 June 2016) was due to the payment of costs and expenses by the associated companies for and on behalf of the Company". Provide breakdown expenses of Company in 3Q2016. Why is the amount only RMB6.89 million? Why is associate company paying Company's costs and expenses?

Company's Response to SGX Query 14

As analysed and explained in our Response to SGX Query 6(a) above, due to a temporary shortage of sufficient fund to settle its operating expenses and other accounts payable, the Company has requested CCMH, being one of our associated companies, to settle such operating expenses and other accounts payable on the Company's behalf and as a result our 'Amount due to Associates' has increased by RMB2.836 million accordingly.

A detailed breakdown of the administrative expenses of RMB1,654K was as follows:

	1Q2017 RMB'000
Staff costs & directors' remuneration	587
Legal & professional fees	738
Office rental	105
Other operating expenses	224
Total administrative expenses	1,654
	=====

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
24 November 2016