

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 FULL 18 MONTHS PERIOD ENDED 30 JUNE 2016**

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (the “**Results Announcement**”) released on 29 August 2016 on the Unaudited Financial Statement and Dividend Announcement for the Full 18 Months Period Ended 30 June 2016. 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 recorded by Xuzhou Zhongwei for the 6 months period ended 30 June 2015 was RMB 373.4 million;
 - b. the revenue recorded by Xuzhou Zhongwei for the 6 months period ended 31 December 2015 was RMB41.5 million; and
 - c. the revenue recorded by Xuzhou Zhongwei for the 6 months period ended 30 June 2016 was RMB11.6 million.
4. The main asset of the Company, its subsidiaries and/or associated companies (the "**Group**") as at 30 June 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 actively observe and monitor the business of Xuzhou Zhongwei and actively 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 right to actively participate in the formulation of its business strategies and important operating issues discussion through Mr. Huo.
6. The Company has also decided to set up a new subsidiary which is intended to be involved in a new business area in the media and entertainment industry in Hong Kong and in the mainland of the People's Republic of China ("**PRC**"), details of which are as set out in the Company's response to Query 6(a) below. The management is confident that the Company will become active in these new promising business areas 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 and the Company has subsidiaries with operating businesses, 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 2 of the Results Announcement. We note that 'Amount due from associates' has increased from RMB1.634 million to RMB61.302 million. Please provide the following information:-

- (a) Provide breakdown and disclose identity of respective associates
- (b) Reasons for the significant increase in 'Amount due from associates'.

Company's Response to SGX Query 2(a)

The only associate referred to in the "Amount due from associates" is Rich Circles, and the breakdown is as follows:

	<u>The Group and the Company</u> (RMB' Million)
Amount due from associates (being current account with Rich Circles repayable on demand) As at 31 December 2014	1.634
Less : Offsetting of debt by payment made on Behalf by Rich Circles during the period	(1.332)
	<hr/> 0.302
Reclassification of "Loan to Associates (Rich Circles)" stated Under "Non-current assets" as at 31 December 2014 to "Amount due from associates" As at 30 June 2016	49.000
Additional shareholder's loan granted to associates (Rich Circles) pursuant to the Company's subscription of additional 1,200 new shares to increase the Company's shareholding from 49% to 54.46% on 27 May 2015	12.000
	<hr/>
"Amount due from associates (Rich Circles) stated under "Current assets" as at 30 June 2016	61.302
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Company's Response to SGX Query 2(b)

The reasons for the significant increase in "Amount due from associates" were mainly (i) the additional shareholder's loan granted to Rich Circles in the amount of RMB12 million, and (ii) the reclassification of the original shareholder's loan amount of RMB49 million standing as at 31 December 2014 as it had become due as of 30 June 2016.

SGX Query 3

We refer to page 14 of the Results Announcement. Please provide the following information:-

- (a) "... 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.

- (b) "... 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? How is it being monitored? Provide background of this bondholder. Who is the legal representative of Rich Circle?
- (c) "... 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. What is the source of the POA's relationship with the bondholders? To provide more information.
- (d) "... 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?
- (e) "... 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.
- (f) "... 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?
- (g) "... 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 3(a)

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 of Xuzhou Zhongwei, 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 or a guarantor of Xuzhou Zhongwei.

Company's Response to SGX Query 3(b)

The Company is unable to publicly disclose the identity and background of the major bondholder as this is confidential and 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.

Company's Response to SGX Query 3(c)

Ms. Li Ya Xin has given a power of attorney to a Mr. Wong, who is her brother-in-law. He is neither related to the SME Bondholders nor to the substantial shareholders or directors of the Company.

Company's Response to SGX Query 3(d)

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 the recently ongoing negotiation between Xuzhou Zhongwei and the SME Bondholders in respect of the default in repayment of the SME Bonds.

Company's Response to SGX Query 3(e)

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 3(f)

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 3(g)

Rich Circles is exempt from audit under the Ordinance laws of Hongkong as it is incorporated in the British Virgin Islands. FKT had performed an audit into Rich Circle's books during its audit process of the Group, but no separate audit report will be issued in respect of Rich Circles.

SGX Query 4

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". Did Company announce this? 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 4(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 communicated to the Company 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 4(b)

Please refer to the calculations contained in Annex A.

Ms Li Yu Huan had previously, under the bond subscription agreement dated 9 July 2014 and entered into between Ms Li Yu Huan and the Company, subscribed for a principal amount of S\$10,000,000 of bonds from the Company, of which S\$6,023,841.72 was capitalised in connection with the placement announced on 30 September 2015. In contrast, Ms Li Ya Xin is the other shareholder of Rich Circles. Ms Li Yu Huan and Ms Li Ya Xin are two different persons and are not related to each other in any aspect.

SGX Query 5

We refer to page 17 of the Results Announcement. Please provide the following information:-

- (a) Clarify and elaborate on "unforeseen difficulties in their respective operations of different nature".
- (b) How much owing by Han Energy Co., Ltd and Beijing Baota Petrochemical Company Limited? Quantify and provide aging.

Company's Response to SGX Query 5(a)

These circumstances are as set out in the Company's response to SGX Query 4 above, namely, that the shares of Han Energy's holding company, Hanergy Thin Film Power Group Ltd., on the Hong Kong Stock Exchange shares on the Hong Kong Stock Exchange were suspended, and Baota had communicated to the Company that it was facing financial difficulties.

Company's Response to SGX Query 5(b)

No amounts are currently owing to the Group by Han Energy and Baota.

SGX Query 6

We refer to page 17 of the Results Announcement on the acquisition by the Company of 70% of the total equity interest in the registered capital of Boya Lianli (Beijing) Investment Limited. Please provide the following information:-

- (a) What is the business of Boya Lianli (Beijing) Investment Limited? Who introduced this business to the Company?
- (b) Does Boya Lianli (Beijing) Investment Limited have business that can meet the reverse takeover requirements?

Company's Response to SGX Query 6(a)

Boya Lianli (Beijing) Investment Limited ("**Boya Lianli**") was incorporated on 13 August 2014 under the laws of the PRC. As at the date hereof, Boya Lianli is principally engaged in the following core businesses:

- (a) Online Content and Movie Development

This involves the development of short-form and long-form videos and movies for online platforms. Boya Lianli engages in the development of movies principally through the following means: (i) independently through Boya Lianli's in-house movie production team, and (ii) collaboration with international award-winning film production companies.

(b) Multi-platform Content Investment and International Distribution Consultation

This involves the distribution of digital content in the PRC and the importing of digital content into the PRC from foreign jurisdictions. Boya Lianli also invests in productions overseas and the domestic production of films to appeal to the global market.

Boya Lianli also provides consulting services for copyright sales, publicity, production release and advertisements' placement of internet films produced by Star Union Skykee (a major movie and media company in the PRC, with its subsidiaries located in Guangzhou, Beijing, Shenzhen, Zhejiang, and Hong Kong). Boya Lianli has also formed partnerships with international movie distributors, providing consultation to: (i) production studios based in the PRC on how to distribute content worldwide; (ii) local movie companies on how to tap into the international market; and (iii) foreign companies seeking to enter into the local PRC market on how to manage the copyrights and licensing sales of their content.

(c) Movie Visual Effects Workflow Optimisation Consultation

This involves the provision of high-end consultation services for producers based in the PRC in the areas of sales, post-production services of films, commercial and film advertising to improve the quality of the film, and the provision of high-level visual effects services such as 3D modeling, animation, 3D-scanning, digital background compositing, digital lighting design and particle effect.

(d) Movie Production Professional Education

This aspect involves the expansion of the current business of Boya Lianli of celebrity management and brokerage through the setting up of professional training schools and development of programmes relating to movie production and digital content for universities in the PRC, forming business partnerships with movie stars, provision of training programmes for the movie stars and organisation of live web-cast shows and events to create a platform for the movie stars to meet their fans.

Wei Ying (韦莹), who is the vendor of the proposed acquisition of 70% of the total equity interest in the registered capital of Boya Lianli, introduced the business of Boya Lianli to the Company.

Company's Response to SGX Query 6(b)

As announced by the Company on 2 March 2016, the relative figures applicable to the proposed acquisition computed on the bases pursuant to Rule 1006(a) to (e) of the SGX-ST Listing Manual do not exceed 100%. Further, the proposed acquisition will not result in a change in control of the Company. While the business of Boya Lianli will not be able to meet the reverse takeover requirements under the SGX-ST Listing Manual, the reverse takeover requirements under the SGX-ST Listing Manual are not applicable to the proposed acquisition as there is no change in control and as the proposed places and vendor are completely unrelated parties.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
13 September 2016

ANNEX A

Summarisation of discharge of financial liability:			
		SGD	RMB
Principle		10,000,000.00	49,158,500.00
Interest payable accrued in prior period:		388,055.37	1,907,622.00
Balance as at 31/12/2014:		10,388,055.37	51,066,122.00
Interest payable for current period:		415,884.31	1,886,365.28
Cash repayment:		(4,780,097.96)	(22,062,891.00)
Balance owing to Li Yu Huan before share placement:		6,023,841.72	30,889,596.28
		[RMB to SGD : 4.47027]	[USD to RMB : 0.1583]
Issuance of 100,397,362 ordinary shares at US\$0.005 (S\$0.0070657)		(709,377.87)	(3,171,110.61)
Share premium (S\$0.0271 less S\$0.0070657)		(2,011,390.64)	(8,991,459.24)
Difference between share price of S\$0.06 and transacted price at 30 Sep 2015 S\$0.0271		(3,303,073.21)	(14,765,629.08)
Exchange difference			3,961,397.35
Balance at period end		-	-
The Company issued a share placement on 30 September 2015 to settle the existing debt component with Li Yu Huan			
The share placement is issued at S\$0.06 per share for 100,397,362 ordinary shares			
The par value of the share is US\$0.005. The par value is applicable as AFH is a Bermuda registered Company.			
The share placement is issued on 30 September 2015.			
The exchange rate of between USD/RMB is 0.1583 and SGD/RMB 4.47027 on 30 September 2015.			
Computation of transaction of share placement at transacted price on 30 September 2015:			
		SGD	RMB
Transacted amount on 30 September (S\$0.02710 x 100,397,362 shares)		2,720,769	12,162,570
Less: Par value of placement shares (Additional share capital) US\$0.005 x 100,397,362		709,378	3,171,111
Share premium		2,011,391	8,991,459
Transacted price on 30 September S\$0.02710 x 100,397,362		2,720,769	12,162,570
Value of placement shares at issue price (S\$0.006 x 100,397,362)		6,023,842	26,928,199
Gain on share issuance (recognised in accordance with INT FRS 119 paragraph 9)		3,303,073	14,765,629
Exchange difference due to revaluation			3,961,397