

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 8 March 2018 (the “**Announcement**”) on the responses to queries from the Singapore Exchange Securities Trading Limited (“**SGX**”) in relation to the Company’s announcement on 14 February 2018 on the unaudited second quarter financial statement and dividend announcement for the three months ended 31 December 2017. 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) In the Company’s announcement of 8 March 2018 (the “Announcement”), it was disclosed that the Hong Kong Office rental amounted to RMB 0.75 million and Shanghai Office rental amounted to RMB 0.21 million. In total, there is an increase of 632% to RMB 0.96 million from RMB 0.13 million in 2Q2017. This is significant compared to the 2Q2018 net profit of RMB 0.28 million. Please provide further disclosure as to where the “high-grading” new offices have been located and the size of these offices which have caused the sharp increase in rental.

Company’s Response to SGX Query (a)

The Company had shifted its headquarter office in Hong Kong in March 2017 from the previous office premises located at Room 3508, 35/F, Central Plaza, Wanchai, with a working space of 215.3 square feet and at a basic monthly rental of approximately HK\$ 44,000, to the current office premises located at Room 4310, 43/F, China Resources Building, Wan Chai, with a working space of 3,593 square feet and at a basic monthly rental of approximately HK\$ 255,000.

In connection with the above, the quarterly rental expenses incurred, inclusive of the relevant office management fees and air-conditioning charges, have increased significantly from approximately RMB 132,000 in 2Q2017 to approximately RMB 753,000 in 2Q2018.

In relation to the new Shanghai office, the working space of the office premises is 483 square metres (approximately 4,830 square feet) and the basic monthly rental is approximately RMB 71,000.

SGX Query (b)

- (b) The Announcement disclosed HK-based staff salary of RMB 1.5 million and PRC-based salary of RMB 0.58 million in 2Q2018 from nil in 2Q2017 respectively. This is very significant compared to the 2Q2018 net profit of RMB 0.28 million. The Company disclosed that the HK-based staff salary expenses increased by RMB 0.65 million for 2Q2015 as a result of the engagement of new executive director and several support staff in the Hong Kong Head Office from March 2017 onwards. For the PRC-based staff salary, it was disclosed that the increase of RMB 0.58 million was a result of the hiring of several local directors, senior management and support staff responsible for the overall sales and operational activities of the Company’s newly set up office in Shanghai from March 2017 onwards.
- (i) Please disclose the new directors and key management appointed.

- (ii) Please also disclose why, other than Han Yue Gao, who was appointed on 1 September 2017 to replace Zhu Zhi Hong, no other announcement of these Directors and key management were made pursuant to Listing Rule 704(7)(a).

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

Mr. Zhu Zhi Hong had been appointed as Executive Director of the Company with effect from March 2017 and has been subsequently replaced by Mr. Han Yue Gao with effect from September 2017.

Mr. Yue Guang had been appointed as the General Manager of Asia Fashion International Limited, a wholly-owned subsidiary of the Company, with effect from March 2017.

Ms. Echo Kam had been appointed as senior accounting manager of Asia Fashion International Limited, a wholly-owned subsidiary of the Company, with effect from June 2017. She subsequently resigned in late November 2017 in pursuit of personal career objectives.

In relation to Shanghai Daiyoulong (上海戴优堃新材料有限公司) ("SHDYL"), a resident sales director, a resident finance director, a resident office administration manager, and a team of about 8 other supporting staff have been newly recruited since SHDYL's establishment in March 2017.

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

The appointments of Mr. Yue Guang, Ms. Echo Kam, and all other PRC resident senior officers at the subsidiary level were not considered as appointments of key persons such as director, chief executive officer, chief financial officer, chief operating officer, general manager, qualified person or other executive officer of equivalent authority, company secretary, registrar or auditors of the Company at the level of the Issuer, and as such no specific announcement of their respective appointments were made pursuant to Listing Rule 704(7)(a).

SGX Query (c)

- (c) The Company did not disclose as requested which items were non-tax deductible expenses which caused the tax of RMB 1.25 million to amount to 81.5% of the Company's profit before tax. Please disclose as requested and provide a breakdown of the items.

Company's Response to SGX Query (c)

	<u>SHDYL</u> <u>RMB'000</u>	<u>Others</u> <u>RMB'000</u>	<u>The Group</u> <u>RMB'000</u>
Sales Turnover	9,026	-	9,026
Gross Profit	6,316	0	6,316
Other Operating Income	165	0	165
Total Operating Expenses	-1,686	-3,259	-4,945
Profit / (Loss) Before Tax	4,795	-3,259	1,536
Applicable Profits Tax	-1,252	0	-1,252
Profit / (Loss) After Tax	3,543	-3,259	284

As reflected in Note 3 To The Financial Statements For The Financial Year Ended 30 June 2017 at page 51 of the Company's Annual Report 2017, the income of SHDYL (which is operating the food distribution business directly operated in the People's Republic of China, excluding Hong Kong and Macau ("PRC")) has been consolidated into the books of the Group, as it is the main business of the Group. SHDYL's operating profits is subject to the applicable PRC profits tax rate of 25% and a

relatively insignificant local tax surcharge which resulted in the 2Q2018 tax charge of approximately RMB 1,252,000.

The Group's total operating expenses of approximately RMB 3,259,000 incurred by all other entities cannot be applied as deductible expenses to SHDYL's operating profits for SHDYL's local tax computation and assessment purposes as these were all incurred outside of the PRC and considered to be not directly related to the generation of SHDYL's taxable business income.

SGX Query (d)

- (d) The Company reported "a total amount of RMB 0.61 million being made to cooperative business partners as deposits for the entertainment and amusement projects..." – Please elaborate on these entertainment and amusement projects and when will the projects commence. To provide details of these contracts and terms which required the deposits to be made.

Company's Response to SGX Query (d)

In the Company's announcement on "Response To Queries From Singapore Exchange Securities Trading Limited" released on 20 September 2017, the "Company's Response to SGX Query 6(a)" at page 4 of the announcement provided a description of the respective projects in connection with the Company's initial investment in the entertainment and amusement industry in Hong Kong.

As stated in the second paragraph of Section 10 at page 18 of our 2Q2018 results announcement released on 14 February 2018, the Company is currently seeking an opportunity to dispose of the loss-making entertainment business at the best possible terms to the Company. In connection with this, the Company will review the progress status of these projects before the end of FY2018.

SGX Query (e)

- (e) The Company disclosed that the refund of RMB 101.85 million (pertaining to the deposits received from customers for the purchase of the product 'Jijinyo') were made to the PRC local customers which were previously paid by them – Please disclose:
- (i) When were the payments received;
 - (ii) Why were the customers required to pay such a huge amount of deposit; and
 - (iii) Whether the subsequent refund at the end has caused the Company or the customers to be in breach of the agreed contract terms; and
 - (iv) When will the amounts be re-collected and whether such arrangements will result in collectability issues of its accounts receivables eventually.

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

The detailed breakdown on the movement of customers' deposits commencing from March 2017 till 31 December 2017 is as follows:

	<u>SHDYL</u> RMB Million
Customers' deposits received in March 2017	56.75
Customers' deposits received in April 2017	51.80
Customers' deposits received in May 2017	28.59
Customers' deposits received in June 2017	0.44
Recognized as Sales Revenue in June 2017	-0.98

Customers' deposits as at 30 June 2017 **136.60**

Customers' deposits refunded in July 2017 -0.38
Customers' deposits refunded in September 2017 -6.45
Recognized as Sales Revenue in 1Q2018 -8.37

Customers' deposits as at 30 September 2017 **121.40**

Customers' deposits refunded in October 2017 -33.13
Customers' deposits refunded in November 2017 -33.73
Customers' deposits refunded in December 2017 -26.28
Recognized as Sales Revenue in 2Q2018 -10.76

Customers' deposits as at 31 December 2017 **17.50**

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

The customers were initially required to pay the deposits, on a collective basis, in order to ensure that SHDYL obtains full purchase order commitments from its customers prior to SHDYL's making of the corresponding bulk purchase order commitments of 600,000 units of "Jiajinyo" (the "Products") to Shenzhen Ximei (烯美科技(深圳)有限公司) ("Shenzhen Ximei").

The average amount of customers' deposits requested by SHDYL from each customer is approximately RMB 150,000. This amount is not considered as a significant amount on an individual basis and has been accepted by SHDYL's customers.

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

As stated in the "Company's Response to SGX Query (g)(iv) in the Company's announcement on "Response to Queries From Singapore Exchange Securities Trading Limited" released on 8 March 2018, there is no specific legal implication of the Company returning the deposits to the customers, 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 SHDYL and the respective customers.

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

Going forward, after the balance of the customers' deposits has been fully utilized against delivery of the Products, the Company will consider requesting the customers to pay a certain percentage, below 100%, of the total order value when placing new orders of the Products. This proposed alternative would minimize unnecessary local tax and cash custody risks for keeping excessively large amounts of customers' deposits for any prolonged periods of time as stated in the Company's Response to SGX Query (c) in the Company's announcement on "Response To Queries From Singapore Exchange Securities Trading Limited" released on 8 March 2018. However, the Company will still make sure that all amounts due on the Products to be delivered will be collected by the Company before physical deliveries of the Products are made to the customers to minimize potential collectability issues.

SGX Query (f)

(f) With regard to the ongoing negotiations since 28 March 2016 between Xuzhou Zhongwei and the SME Bond holders to find a solution to the final settlement of the default issue –

(i) Please clarify when is the outcome expected;

- (ii) Noting the Company's auditors observation in the Company's FY2017 that when they "paid a plant visit located at Pizhou", they "noted that there were no inventories noted and the machinery had been idle", "all locks and chains were found to be rusty. The building was run-down and not under occupied conditions". In view of this scenario and the cessation of business for Xuzhou Zhongwei, why has the settlement not been completed and why have the bond holders not completed their negotiations? What else are they holding off for? Please also elaborate on the prospects of Xuzhou Zhongwei.

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

The on-going negotiations have been temporarily suspended because of the CNY holidays. We have been informed by the local management of Xuzhou Zhongwei New Board Co., Ltd. ("**Xuzhou Zhongwei**") that negotiations will probably resume in approximately two weeks' time. The Company is unable to provide an expected final outcome of the negotiation to be resumed shortly with reasonable certainty as Xuzhou Zhongwei is the defaulting party and the Company does not play an active role in the negotiations. Nevertheless, the Company will provide prompt updates to shareholders on any progress made from time to time.

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

According to the Xuzhou Zhongwei local management which has been participating in the on-going negotiations, the SME Bondholders seem to prefer to provide some more time and opportunity for Xuzhou Zhongwei to identify possible new investors who are willing to inject fresh cash working capital or sustainable complimentary business into Xuzhou Zhongwei in order to revitalize the production and sales activities of Xuzhou Zhongwei, as the SME Bondholders realize that taking legal proceedings for the compulsory winding up of Xuzhou Zhongwei could possibly result in all parties concerned incurring serious financial losses and damages.

The Company considers that it is currently not in an appropriate position to provide comments with reasonable certainty or speculations about the outcome or prospects of Xuzhou Zhongwei.

With respect to the proposed disposal of the Company's 54.46% shareholding in Rich Circles Enterprise Limited ("**RCEL**") to Ms. Li Ya Xin (the "**Proposed Disposal**"), as stated in Section 3 at page 11 of the Company's 2Q2018 results announcement released on 14 February 2018, the Company wishes to update our shareholders that it is currently still in the process of preparing the relevant circular for SGX's review and approval in-principle to convene the necessary special general meeting to obtain shareholders' approval for the Proposed Disposal. The Company will provide updates on the progress of the Proposed disposal to shareholders from time to time.

SGX Query (g)

- (g) The Company disclosed that "SHDYL'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 in each pack) for the initial 12 months' period".
 - (i) The "6 million pill units" do not tally with "30,000 packs containing 20 units". Please reconcile.
 - (ii) The Board of Directors on 23 November 2017 had announced that in their due diligence, they had taken into account that on the financial strength of Shenzhen Ximei to take on legal liabilities on claims by users of the "Jiajinyo" product they had taken into account that Shenzhen Ximei is wholly subsidiary of "Tiger Global Investment Group Limited". Please provide further information on "Tiger Global Investment Group Limited" and the size of this group in providing the basis for the Company's Board's views that Shenzhen Ximei has the size and financial strength to

bear any costs and damages of the exclusive distribution agreement signed by Shenzhen Ximei with SHDYL.

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

The management wishes to clarify the typographical error made in presenting "600,000 pill units" as "6 million pill units", and that the relevant paragraph should read as "SHDYL's annual product delivery quantity has been limited by Shenzhen Ximei's ultimate limitation and corresponding commitment on its own annual production schedule of 600,000 pill units (or 30,000 packs containing 20 units in each pack) for the initial 12 months' period."

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

As stated in the Company's Response to SGX Query 2(b) in the Company's announcement on "Response To Queries From Singapore Exchange Securities Trading Limited" released on 23 November 2017, the Company has provided its response and elaboration on the level of due diligence work performed by SHDYL and the Company before concluding that Shenzhen Ximei is a credit-worthy trading business partner.

The Company has recently performed similar searches as stated in the announcement above and found that there is no change either in the shareholding structure or the operating status of both Shenzhen Ximei and Tiger Global Investment Group Limited as Shenzhen Ximei's overseas parent company.

By Order of the Board

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