

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

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED**

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*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 13 November 2017 (the “**Announcement**”) on the unaudited first quarter financial statement and dividend announcement for the three months ended 30 September 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)**

We note that the amount of administrative expenses of RMB 4.42 million is an increase of 167% from RMB 1.65 million. This amounts to 60% of 1Q2018 Revenue of RMB 7.35 million and is very significant in relation to net profit after tax of RMB 122,000. Please provide a breakdown of the amount for 1Q2018 and compare it with 1Q2017 and explain the reasons for each material items.

**Company’s Response to SGX Query (a)**

	<u>1Q2018</u> RMB’000	<u>1Q2017</u> RMB’000	<u>Inc./ (Dec.)</u> RMB’000
Hong Kong Office rental expenses	761	136	625
Shanghai Office rental expenses	213	0	213
Staff salary – HK-based	1,281	727	554
Staff salary – PRC-based	572	0	572
Depreciation on fixed assets	314	28	286
Professional fees	539	410	129
Business travel expenses	254	71	183
Other operating expenses	486	282	204
	<u>4,420</u>	<u>1,654</u>	<u>2,766</u>
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Notes :

1. The Hong Kong Office rental expenses has increased by RMB 625,000 as a result of the move of the Group’s Head Office in Hong Kong to a new office premise.
2. The Shanghai Office rental expenses has increased by RMB 213,000 as a result of the rent payable for new office premises, which serve as the operating office of Shanghai Daiyoulong, accruing from June 2017. Prior to June 2017, Shanghai Daiyoulong enjoyed rent-free occupancy for its operating office from March 2017 to June 2017. The management of the

Company is of the view that the decision to set up the operating office in Shanghai was reasonable and desirable for the development of its distribution business in China.

3. The HK-based staff salary expenses increased by RMB 554,000 mainly as a result of the appointment of a new executive director and hiring of several support staff for the Group's Head Office in Hong Kong from March 2017 onwards. The hiring of several support staff was undertaken for the purposes of developing the Company's distribution business in China.
4. The PRC-based staff salary expenses increased by RMB 572,000 as a result of the appointment of several local directors, senior management and support staff responsible for the overall sales and operational activities of the newly opened office of Shanghai Daiyoulong in Shanghai from March 2017 onwards. The employment of the sales and support staff was to facilitate and develop the Company's distribution sales business in China.
5. The depreciation on fixed assets 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 the newly opened offices in Hong Kong and Shanghai during the period from March 2017 to June 2017.
6. The business travelling expenses increased by RMB 183,000 mainly due to the increase in business activities in Shanghai. As a result, frequent business trips between Hong Kong and Shanghai were required. Additionally, the business travelling expenses of the Company's auditors incurred during the conduct of necessary audit work in Shanghai during the period from July to September 2017, was also one of the major reasons resulting in the increase in business travelling expenses. Prior to this incurrence, there have not been business travelling expenses of the Company's auditors.

#### **SGX Query (b)**

It was disclosed in page 14 that revenue of "RMB 7.35 million was exclusively the sales revenue directly generated from the distribution sales of specially branded health supplement product made by Shanghai Daiyoulong... which is principally engaged in the distribution sales of the aforementioned specially branded health supplement product named 'Jiajinyo' to customers in China... For information purposes, the turnover at the Xuzhou Zhongwei level has continued dropping significantly the past few quarters as a result of discontinued orders from Beijing Baota Petrochemical Company Limited and Han Energy Co Ltd respectively, which has already been reported in the past quarterly results announcements."

- (i) To provide details of the Company's entertainment sector and factors that affected its financial performance.
- (ii) To disclose the channels of distribution for sales made by Shanghai Daiyoulong.
- (iii) How many distributors and the locations of these outlets.
- (iv) To disclose the types of health supplements and details of the composite how the sales amount of RMB 7.35 million was calculated.
- (v) To disclose website of where Jiajinyo is promoted and sold, how Jiajinyo is delivered to the end-user and when sales are recognized.
- (vi) To provide financial statements as well as details of the sales and contracts undertaken by Xuzhou Zhongwei.

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

As the Company was unable to raise sufficient investment funding from its proposed fund-raising in late 2016, it was unable to explore the promising investment and business venture opportunities

which it had been considering as substantial funding was required to finance and support the continued presence and active participation in the amusement and entertainment business sector in Hong Kong and other Asean countries such as Japan, Korea and Taiwan.

Subsequently, the Group managed to successfully establish and commence its own distribution sales business in China from March 2017 onwards. In contrast with the amusement and entertainment business sector, the distribution sales business in China had lower barriers-to-entry in terms of required up-front fund investment payments. In light of the positive developments in the distribution sales business of the Group, the Group has decided to change its business development strategy to allocate its resources from the amusement and entertainment business in Hong Kong and the other Asean countries to its distribution sales business in China. Going forward, the Group is considering its options in respect of the amusement and entertainment related subsidiaries and to focus on the stabilization and steady growth of our PRC distribution sales business, and such options include the disposal of this business.

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

Shanghai Daiyoulong's sale of the health supplement product called "Jiajinyo" (the "**Jiajinyo Product**") to its customers, most of whom are end-users, is via the direct approach to customers. This approach includes referrals from and introductions by business associates of the Company's Chairman and executive directors.

#### **Company's Response to SGX Query (b)(iii)**

As explained in (b)(ii) above, as the distribution channel for the Jiajinyo Product is via the direct approach, there are no distributors or outlets for the distribution or sale of the Jiajinyo Product.

#### **Company's Response to SGX Query (b)(iv)**

The Group, through Shanghai Daiyoulong, is currently only selling the health supplement product of "Jiajinyo" and no other health supplement product. As such, the entire sales amount of RMB 7.35 million recorded in 1Q2018 was derived exclusively from the sales of Jiajinyo Product in China.

#### **Company's Response to SGX Query (b)(v)**

Shanghai Daiyoulong has not set up specific websites for the promotion and sale of the Jiajinyo Product as the Company is of the view that the costs of maintaining a specific website for the promotion of the Jiajinyo Product are not justified at this stage of the Company's distribution business in China.

We have engaged independent licensed delivery agents, such as SF Express (顺丰快递) to perform the physical delivery of the Jiajinyo Product to the designated customers / end-users in China.

The customers of the Jiajinyo Product would place orders by sending duly signed standard order forms provided by the sales department of Shanghai Daiyoulong via mail or email. The sales of the Jiajinyo Product are recognized upon the receipt by the Company of the official cargo (product) receipts signed by the receiving customers via the delivery service company or the receipt of mail from the customers confirming and acknowledging that they have received the products, whichever is earlier.

#### **Company's Response to SGX Query (b)(vi)**

As disclosed in the Company's 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 been refused access to such books and records following the default of repayment of the Xuzhou SME Bonds on 28 March 2016. 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 the 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 for reference purposes.

#### **SGX Query (c)**

It was disclosed in page 15 that loan to associate of RMB 61.0 million as of 30 September 2017 represented the operating loan extended to the Rich Circles Group as reported as of 30 June 2017.

- (i) To provide an update on the actions taken by the Company for pursuing repayment of the loan to Rich Circles Group.

#### **Company's Response to SGX Query (c)(i)**

Please refer to the Company's announcement dated 20 November 2017 for the latest status and development in relation to the RMB 61.0 million shareholders' loans extended by the Company to Rich Circles Enterprise Limited. Following the said announcement, the Company is currently in the process of preparing for the necessary Circular and other relevant documentations for the holding of a special general meeting (SGM) to allow our shareholders to vote on the proposed disposal of the Company's shareholding in Rich Circles Enterprise Limited (the "**Proposed Disposal**"). As such, comprehensive disclosure of the relevant information in relation to the Proposed Disposal will be set out in the Circular to shareholders to be issued in due course.

#### **SGX Query (d)**

It was disclosed in page 15 that the amount due to director/shareholder of RMB 3.56 million as of 30 September 2017 represented RMB 3.35 million due to Mr Yuan Li Min and RMB 0.21 million due to Mr Mak Tin Sang, which are both interest free and repayable on demand.

- (i) To disclose the nature of the transaction(s) which resulted in the amounts due to them.

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

The Company has disclosed the nature of the transaction(s) which resulted in the amounts due to Mr. Yuan Li Min of RMB3.35 million and the amounts due to Mr. Mak Tin Sang of RMB0.21 million respectively as of 30 June 2017 in the Company's previous announcement dated 20 September 2017 (kindly refer to the Company's Response to SGX Query 10(a)(ii) on page 8 of the said announcement). There has been no change to such loan amounts during the reporting quarter. As such, the same outstanding loan amounts of RMB3.56 million and RMB0.21 million have been reported as of 30 September 2017.

#### **SGX Query (e)**

It was disclosed in page 15 that the amount due to third parties of RMB 3.81 million as of 30 September 2017 represented the amount due to independent third parties which are interest free and repayable on demand.

- (i) To disclose the identities of the third parties as well as the reason and nature of the transaction(s) which resulted in the amounts due to them.

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

The Company has disclosed the nature of the transaction(s) which resulted in the amounts due to the independent third parties of RMB 8.45 million as of 30 June 2017 in the Company's previous announcement dated 20 September 2017 (kindly refer to the Company's Response to SGX Query 10(a)(iii) on page 9 of the said announcement).

The Company has subsequently repaid RMB 4.64 million to the independent third parties to reduce the said outstanding loan amount to RMB 3.81 million as of 30 September 2017. Due to confidentiality reasons, the Company is unable to publicly disclose the identities of these two independent third parties.

#### **SGX Query (f)**

It was disclosed in page 15 that the amount due to associates of RMB 6.40 million as of 30 September 2017 was mainly due to the payment of costs and expenses by Rich Circles Group for and on behalf of the Company before the completion of the substantial fund raising exercises in June 2017.

- (i) To provide a breakdown of these costs and expenses and date of payment.

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

Please refer to the Company's Response to SGX Query 11 and SGX Query 12 on page 9 of the Company's previous announcement dated 20 September 2017. Such outstanding amounts and the relevant supporting transactions have been audited and verified by the Company's auditors.

#### **SGX Query (g)**

It was disclosed in page 17 that the management is fairly confident and determined that the Group will continue to focus on the strengthening and steady development of this distribution sales business.

- (i) To provide details of what steps had been taken to strengthen the distribution sales business.
- (ii) To provide details of the development plan and how it would be carried out.

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

The Company is working hard to foster a good and harmonious business relationship with our existing customers and is constantly seeking opportunities to build business relationships with new customers / end-users for the Jiajinyo Product.

The Company is also concurrently actively exploring opportunities to enter into exclusive distributorship agreements with reliable business partners for the distribution of reputable and reliable products complementary to the Jiajinyo Product in order to expand the Company's range of product offerings.

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

The Company considers that the public disclosure of the details of the development plan or business strategies of the Company would hamper the Company's objective to grow its distribution business. In order to safeguard the Company's competitiveness, the Company prefers to keep its unique commercial tactics and trade secrets confidential from the Company's competitors as well as potential market imitators.

By Order of the Board

Chong Tin Yam, Alex

Executive Director and Chief Executive Officer  
15 December 2017