

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

**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING
LIMITED ON THE UNAUDITED SECOND QUARTER FINANCIAL STATEMENT AND DIVIDEND
ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015**

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcement (“**Results Announcement**”) on 14 August 2015 on the Unaudited Second Quarter Financial Statement and Dividend Announcement for the Period Ended 30 June 2015 (“**Q2 2015**”). 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 raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 18 August 2015 (“**SGX Query**”) as follows:

SGX Query 1

We note that ‘Trade receivables’ amounted to RMB 205.888 million as at 30 Jun 2015. Please provide the following information:-

- (a) Aging and reason why sales amount to RMB 71.058 million but ‘Trade receivable’ is RMB 205.888 million.
- (b) Provide directors’ views and basis for collectability.
- (c) Clarify what led to this significant amount of ‘Trade receivable’ and disclose the nature of the transactions.

Company’s Response to SGX Query 1

The aging analysis had been provided on Page 16 of the Q2 2015 Results Announcement. As explained in the said announcement, the sales amounting to RMB71.058 million related to sales of Rich Circles Enterprise Limited (“**Rich Circles**”) and its subsidiaries (the “**Rich Circles Group**”) were consolidated into the Group’s results as the Company started to consolidate the results of the Rich Circles Group following the increase of its shareholding in Rich Circles from 49% to 54.46% for the period from 27 May 2015 to 30 June 2015.

The Directors have discussed the collectability of the debts with the management, and is satisfied with the collectability after assessing the payment track records of the debtors, who are major long-term customers of the Group, and their continuous relationship with the Company. Management has been urged to closely monitor the situation.

The significant amount of Trade receivables was due to payments under several projects running concurrently by a few major customers, pursuant to payment schedules which are between 90 to 120 days which are in line with market practice.

SGX Query 2

We note that ‘Prepayments and other receivables’ amounted to RMB 197.127 million. Please provide the following information:-

- (a) Provide breakdown and quantify material items
- (b) Provide details of material items.

Company’s Response to SGX Query 2

The breakdown and quantification of material items, and the details in respect of Prepayments and other receivables, have been set out in Page 16 of the Results Announcement.

SGX Query 3

We note that 'Trade payables' amounted to RMB 187.659 million. Please provide the following information:-

- (a) Provide breakdown of the 'Trade payables'
- (b) Provide reason for the significant outstanding amount.

Company's Response to SGX Query 3

The details in respect of Trade payables have been set out in Page 17 of the Results Announcement and the significant amount of Trade payables was due to the reason as explained in the response in Query 2. A further breakdown of this into categories is as follows:

	<i>RMB'000</i>
Suppliers – raw materials	174,909
Suppliers – transportation	3,860
Suppliers – others	8,890
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	187,659
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SGX Query 4

We note that 'Other payables and accruals' amounted to RMB 190.482 million. Please provide the following information:-

- (a) Provide breakdown and quantify material items
- (b) Provide details of material items and nature of the transactions which resulted in the significant payables.

Company's Response to SGX Query 4

The details in respect of Other payables and accruals have been set out in Page 17 of the Results Announcement.

SGX Query 5

We refer to page 16 of the Results Announcement on the aging analysis for 'Trade receivables'. Please identify the customers and provide details of the financial condition of these customers and their ability to repay these debts to the Company for the following:-

- (a) Less than 365 days – RMB 146.469 million
- (b) 1 year to less than 2 years – RMB 32.191 million
- (c) 2 years to less than 3 years – RMB 21.910 million.

Company's Response to SGX Query 5

The details of the key customers in respect of the Trade receivables are as follows:

	<i>RMB'000</i>
Key customer 1	83,944
Key customer 2	41,552
Key customer 3	33,675
Key customer 4	28,911
Others	17,801
	<hr/>
	205,883
	<hr/>

Key customer 1 is a privately owned petrochemical group in the People's Republic of China ("PRC") which has been the customer of our subsidiary, Xuzhou Zhongwei New Board Co., Ltd ("**Xuzhou Zhongwei**") since 2013 and uses our products for the construction of their petrol kiosks and other facility. As of 30 June 2015, the receivables due from Key customer 1 represented the amounts outstanding in respect of sales for the month in June 2015.

Key customer 2 is a trading company deals with machineries and construction materials and has been trading with Xuzhou Zhongwei since 2013. As of 30 June 2015, the receivables due from Key customer 2 represented the amounts outstanding in respect of sales within 120 days.

Key customer 3 is a company dealing with construction and renovation materials. As of 30 June 2015, the receivables due from Key customer 3 represented the amounts outstanding for less than 2 years.

Key customer 4 is a local distributor of construction and renovation materials, primarily boards and panels and has been trading with Xuzhou Zhongwei since 2012. As of 30 June 2015, half of the receivables due from Key customer 4 outstanding in respect of represented the amounts outstanding in respect of the sales of more than 365 days.

In view of the continuing trading relationship with these key customers, which have reasonably strong financial standing, the Group does not foresee any inability of these customers to repay the receivables.

SGX Query 6

We refer to page 16 of the Results Announcement on the details for 'Prepayment and other receivable'.

- (a) Please provide details of the large amounts paid in advance for the following:-
 - (i) Raw material – RMB 61.822 million
 - (ii) Machinery & maintenance – RMB 43.841 million
 - (iii) Distributors – RMB 25.950 million
 - (iv) Prepayments – RMB 16.460 million
 - (v) Loans to business associates – RMB 31.693 million
- (b) Please provide the following information in relation to 'Loans to business associates'
 - (i) Explain why does Company have to loan to these business associates
 - (ii) Provide identity of these business associates and their financial standing
 - (iii) Basis of the Company's statement that the amounts "are expected to be repaid in the current year".

Company's Response to SGX Query 6(a)

The prepayments related to prepaid expenses for goods and services to be provided by the Group's suppliers.

The prepayments to suppliers for raw materials and machinery & maintenance were in accordance to the negotiated terms of the contracts in order to secure better pricings and supplies which is generally standard in the industry practice.

The prepayments to the distributors were a form of financial assistance to assist them with the setting up their retail outlets so that these distributors will help in promoting and sales of the Group's products.

Company's Response to SGX Query 6(b)

Details in respect of the Company's loans to associates are as follows:

	<i>RMB'000</i>
Business associate 1	23,549
Business associate 2	6,683
Others	1,460
	<hr/> 31,692 <hr/>

Business associate 1 ("BA1") is a customer of the Group who deals in the manufacturing and sales of wooden floorings based in Shenyang City, and which approached Xuzhou Zhongwei in 2014 for assistance on funding their expansion. In accordance with the negotiated terms, besides repaying the amount in 2015, BA1 will be required to place certain orders with Xuzhou Zhongwei during the term of

loans and the Group has priority to acquire certain shareholding in BA1, should there be an investment opportunity. BA1 is still continuing to trade with our subsidiary. In view of the continuing trading relationship with BA1, its strong financial standing and payment track records, the Group does not foresee any inability for BA1 to repay the receivables due to the Group.

Business associate 2 (“BA2”) is Li Yuhuan whom had previously subscribed to the Group’s non-equity linked bonds (“NELB”). She had requested for short term advances from the Company, and such amounts will be offset against the amounts owing by the Company under the NELB.

SGX Query 7

We refer to page 17 of the Results Announcement on the aging analysis for ‘Trade payables’.

- (a) Please provide breakdown and the underlying transaction for RMB 127.14 million.
- (b) Please explain why the Company is unable to repay the amounts for the following:-
 - (i) 1 year to less than 2 years – RMB 8.918 million
 - (ii) 2 years to less than 3 years – RMB 6.584 million
 - (iii) 3 years and above – RMB 7.017 million

Company’s Response to SGX Query 7(a)

The breakdown has been disclosed in the table in the Company’s response to Query 3 above.

Company’s Response to SGX Query 7(b)

The Company is able to repay the trade payables stated. However, it will evaluate repayment on a case by case basis, taking into account factors such as favourable credit terms extended by its suppliers, and disputes during the provision of goods and/or services (where relevant).

SGX Query 8

We refer to page 17 of the Results Announcement on the details for ‘Accruals and other payables’. We note the amount of RMB 100 million due to ex-shareholder of Xuzhou Zhongwei. Please provide the following information:-

- (a) Nature of the debt and underlying transaction
- (b) Reason why the Company is acquiring this debt when it acquired China Construction Material.

Company’s Response to SGX Query 8

The amount due to ex-shareholder of Xuzhou Zhongwei was an existing debt which became payable by the Group when China Construction Material (Hong Kong) Limited acquired Zhongwei New Board Co., Ltd through the acquisition of, *inter alia*, Zhongchuang (Xuzhou) Construction Co., Ltd in 27 June 2013. The debt was acquired together with the acquisition of China Construction Material (Hong Kong) as announced by the Company on 18 June 2014, 25 June 2014, 27 June 2014 and 3 July 2014. Such acquisition included all assets and liabilities of China Construction Material (Hong Kong) and its subsidiaries, and was considered in the valuation when determining the purchase price, which was viewed to be a bargain for the Group.

SGX Query 9

We refer to page 17 of the Results Announcement on the issuance of RMB 180 million unsecured SME tradable bond by the Company’s subsidiary, Xuzhou Zhongwei quoted on Shanghai Stock Exchange due 28 March 2016. Please explain how does the Company intend to finance the repayment of this bond due 28 March 2016.

Company’s Response to SGX Query 9

Our subsidiary, Xuzhou Zhongwei, prior to the acquisition by the Company, had on 28 March 2013 successfully issued a private SME Bond (“SME Bond”) listed on Shanghai Stock Exchange. The SME Bond bears an interest at 10% per annum, and was arranged by Huarong Securities Co., Ltd and guaranteed by Sino-Capital Guaranty Trust. The SME Bond is repayable in full on 28 March 2016.

The Company intends to fund the repayment of the SME Bond due on 28 March 2016 through internally generated cash arising from the operations of the Group.

SGX Query 10

We refer to paragraph 9 of the Results Announcement. Please note that this is applicable and comment on whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its previous quarterly results announcement and if there is a variance, to explain why.

Company's Response to SGX Query 10

The Company had made the following disclosure in paragraph 10 of the unaudited first quarter financial statement and dividend announcement for the three months ended 31 March 2015:

"As stated above, the Company had on 3 February 2015 completed the Proposed Disposal of its loss-making fabric business. Following the disposal, the Company will concentrate in the New Material Business acquired through the group comprising Rich Circles and its subsidiaries in June 2014.

The financial performance for 1Q2015 has been within the expectations of our Management team. We are cautiously optimistic that the New Material Business will continue to contribute positively to the financial position of the Company and its subsidiaries.

The Company will continue to undertake strategic review to examine any business potential and options available to further grow the business."

The current results are in line with the Company's commentary above.

By Order of the Board

Mak Ting Sang
Executive Director and Chief Executive Officer
20 August 2015