

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 “Financial Statements and Related Announcement : Full Yearly Results” announcement released via SGXNet on 29 August 2018 (the “**Announcement**”) on the unaudited financial statement and dividend announcement for the financial year ended 30 June 2018 (“**FY2018**”). In this regard, the Board would like to respond to the following queries (the “**SGX Query**”) raised by the SGX as follows:

SGX Query (a)

- (a) In the Company’s announcement of 29 August 2018, it was disclosed that the cost of sales for 12M2018 amounted to RMB 4,467,000. Please provide a breakdown of cost of sales and expenses as well as the material items.

Company’s Response to SGX Query (a)

The overall cost of sales for 12M2018 amounted to RMB 4,467,000 actually comprised of three major cost components, namely (i) purchase cost of the “Jiajinyo” product; (ii) relevant packaging cost of the end products to be delivered to the customers; and (iii) applicable sales tax and excise.

The management considered that the disclosure of the detailed exact amount incurred for the overall cost of sales figure on a categorized basis will enable or even facilitate SHDYL’s close competitors to easily work out the exact purchase cost of the “Jiajinyo” product which could bring detrimental pricing and competitive pressure to SHDYL’s current sales of the “Jiajinyo” product in the market. Hence, such categorized cost of sales information will not be publicly released in this Response announcement.

SGX Query (b)

- (b) It is noted that the administrative expenses for 12M2018 of RMB 27,796,000 exceeded the revenue for the same period of RMB 21,158,000.
- i. Please provide a breakdown of RMB 27,796,000 versus the corresponding period and explain the material items as well as elaborate on the nature of these expenses.
 - ii. Please provide an explanation of why the administrative expenses increased so significantly in relation to the Company’s entry into the distribution business and how the business model of the new business resulted in the administrative expenses exceeding the revenue from the sales.

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

	<u>12M2018</u> <u>RMB'000</u>	<u>12M2017</u> <u>RMB'000</u>
Salaries and fringes	6,846	4,047
Office rental expenses	3,874	953
Staff quarter rental	89	0
Motor car expenses	654	0
Loss on disposal of fixed assets	180	0
Depreciation & amortisation expenses	2,296	249
Impairment loss on office renovation	1,440	0
Legal fees	3,572	1,432
PRC tax consultation expenses	427	0
Business consultation expenses	1,160	0
Annual statutory audit fees	909	983
Special audit review fees	2,118	0
Business travelling & entertainment	1,946	451
Bank charges	17	180
Other operating expenses	2,268	971
	<u>27,796</u>	<u>9,266</u>

Explanatory Notes:

1. The overall staff salaries and fringes expenses increased by approximately RMB 2,799,000 as a result of (i) the hiring of additional senior management officials for the Company's extended new distribution business in China such as Mr. Yue Guang as Chief Operating Officer and Mr. Han Yue Gao as Executive Director and (ii) the hiring of additional sales, financial and operating staff in both our Hong Kong head office as well as our new PRC operating office in Shanghai for a full year's period in FY2018 when compared with that of just a few months in FY2017.
2. The overall office rental expenses has increased by approximately RMB 1,921,000 as a result of (i) the renting of our new PRC operating office in Shanghai only from May 2017 whereby a relevant full twelve months' rental expenses has been incurred in FY2018 and (ii) the renting of the new Hong Kong head office from March 2017 whereby again a relevant full twelve months' rental expenses has been incurred in FY2018. For information purposes, the monthly rental of our Shanghai office is approximately RMB 77,000 while the monthly rental of our Hong Kong head office is approximately RMB 246,000.

3. The staff quarter rental expenses of approximately RMB 89,000 represented the quarter rental expenses incurred by the Company for Mr. Yue Guang as he has to stay and spend a significant amount of his time in the discharge of his job duties in the Hong Kong head office.
4. Motor car expenses incurred in FY2018 of approximately RMB 654,000 mainly represented expenses incurred in direct relation to the operational use of one motor car owned by the Hong Kong head office and two motor cars owned by the Shanghai office throughout most part of FY2018. Such expenses mainly included oil and gasoline expenses, parking fees, car repairs and maintenance, and annual license renewals, etc.
5. Loss on disposal of fixed assets of RMB 180,000 mainly represented the loss incurred by the Company in the disposal of a Mercedes Benz car by Shanghai Daiyoulong in the last quarter of FY2018.
6. The depreciation and amortization expenses basically represented the standard depreciation and amortization charges on the use of fixed assets. The significant increase of approximately RMB 2,047,000 in FY2018 was mainly attributable to the fact that most of the fixed assets were acquired by both our Hong Kong head office and our Shanghai operating office during the last quarter of FY2017 and thereby the FY2017 depreciation and amortization expenses actually only represented an one to two months' depreciation and amortization figure while the FY2018 figure represented a full twelve months' period.
7. Impairment loss on renovation expenses of approximately RMB 1,440,000 solely represented the adjustment made on the depreciation rate of the office renovation cost incurred by the new Shanghai office as the local management has no choice but to decide that, after considering the fact that Asia Fashion International limited, being SHDYL's overseas ultimate holding company, is and will be financially incapable of making any committed cash capital injection into SHDYL in the near foreseeable future as a result of the repeated denials for numerous fund raising exercises at the Group level, SHDYL will make early termination of its existing Shanghai office lease and to move into a smaller and less expensive office in coming October for short to medium term cost cutting purposes. As such, the capitalized renovation cost incurred for the Shanghai office which should originally be amortized over the 60 months' lease period will have to be adjusted to an 18 months' amortization period.
8. Legal fees for FY2018 mainly comprised of approximately RMB 604,000 incurred at the Group level for legal services mainly rendered by Lee & Lee, the Group's legal counsel in Singapore and approximately RMB 2,968,000 incurred by SHDYL in relation to the legal opinions and advices sought from PRC legal counsel mainly on the legal issues (i) about the keeping of a high level of cash deposits from its local customers and the subsequent refunds made to these customers; (ii) about the legality of the distribution agreement signed with Shenzhen Ximei and the customer orders signed with over 800 customers in China as requested; and (iii) about the legal implication and possible consequences to the existing normal business operation of SHDYL if prompt injection of capital funds into SHDYL cannot be made by Asia Fashion International Limited, as SHDYL's ultimate overseas holding company, in the near foreseeable future.
9. PRC tax consultation expenses of approximately RMB 427,000 related solely to the payment of professional fees to Shanghai local tax consultants for rendering its services to review, comment and advise on the overall tax exposure and planning of SHDYL with particular emphasis on its tax risk and exposure in relation to the keeping of an exceptionally high level of cash deposits from its local customers.
10. Other business consultation expenses of approximately RMB 1,160,000 mainly comprised of (i) approximately RMB 160,000 incurred at the Group level for compilation of certain business valuation reports by independent professional valuation firms for the Board's evaluation of certain business proposals purposes; and (ii) approximately RMB 1,000,000 incurred by SHDYL in relation to this fixed sum investment in the engagement of professional services for the research and development of certain complimentary products relevant to our current "Jiajinyo" products with the intention to widen and enrich the range of product offerings to our existing clientele.

11. Annual statutory audit fees represented the fee quotes made by our Auditors Messrs Foo Kon Tan LLP for the statutory audit of the Group's FY2018 financial statements. The audit fees remained stable when compared with that of FY2017.
12. Special audit review fees mainly comprised of (i) approximately RMB 133,000 having paid to Deloitte Hong Kong for the conduct of a cash verification exercise on the Company's cash balances standing as of 30 September 2017 and 31 December 2017 respectively as stated in our relevant 1Q2018 and 2Q2018 results announcement, whereby the report was clean and no abnormality has been found; and (ii) a provision of USD 300,000 (or the approximate equivalent of RMB 1,986,000) for a special audit review assignment to be carried out by EY Singapore at the specific request made by the SGX, this special audit review exercise has not commenced at date of this response announcement due to the pending resolution of funding problems.
13. Business travelling and entertainment expenses for FY2018 has increased by approximately RMB 1,495,000 over that of FY2017 as a result of (i) a tremendous increase in the sales and customer relationship activities including, but not limited to, business courtesy visits and sales call made to the local PRC customers, taken place by SHDYL as a direct consequence of its tremendous increase in sales revenue in FY2018; and (ii) the tremendous increase of Hong Kong-Shanghai cross boarder business travelling made by our core management personnel stationed in Hong Kong and Shanghai respectively as the new distribution business develops.
14. Bank charges has decreased as a result of less short term bank overdraft charges incurred in FY2018 as a result of a tremendously higher average bank deposit balances kept by the Group in FY2018 when compared to FY2017.
15. Other operating expenses for FY2018 has increased by approximately RMB 1,297,000 over that of FY2017 as a result of (i) a tremendous increase in the sales and business activities taken place in China by SHDYL as a direct consequence of its tremendous increase in sales revenue in FY2018; and (ii) the commencement of active operation of our two new offices in Hong Kong and Shanghai respectively from late FY2017 onwards.

SGX Query (c)

- (c) The Company disclosed that prepayments and other receivables for the Group as at 30 June 2018 amounted to RMB 11,840,000. Please provide a breakdown of these prepayments and explain why such prepayments and other receivables are made. Please also provide the credit terms of these underlying contracts.

Company's Response to SGX Query (c)

	<u>30/6/2018</u> RMB'000	<u>30/6/2017</u> RMB'000
Amount due from Edmond Wong	0	103
Amount due from 上海青鹰科贸有限公司	0	23,749
Amount due from 中国资源开发有限公司	8,000	0
Staff travelling advances	769	116
Refundable deposits:		

HK office rental	963	1,011
HK other deposits	152	28
SH office rental	258	258
Deposits paid to 深圳烯美 for purchase of products	553	3,630
Receivable from G Music	266	262
Receivable from FFG	337	351
Prepaid PRC income tax	542	0
	11,840	29,508

Explanatory Notes:

1. The amount of RMB 103,000 due from Mr. Edmond Wong as of 30 June 2017 has been fully settled to the Company during FY2018.
2. As disclosed under Note 9 (page 59) of the Company's Annual Report 2017, advances to 上海青鹰科贸有限公司 of RMB 23,749,000 relates to a sum of money of RMB 23,000,000 placed with a third party to act as a guarantor for SHDYL for certain business transactions with an external supplier and short-term advances of RMB 749,000 which is unsecured and interest-free. Subsequent to financial year ended 30 June 2017, the full sum of RMB 23,749,000 has been received by SHDYL on 3 July 2017.
3. SHDYL has made interest-free short-term loans in the total amount of RMB 8,000,000 to 中国资源开发有限公司 via its designated third party business associates in FY2018. Such loans were made against a total pledge of RMB 10,143,000 for unsecured and interest-free loans owed by the Group as of 30 June 2018 to the following parties: A) RMB 7,573,000 due to 中国资源开发有限公司; B) RMB 1,349,000 due to Mr. Wong Chon Chong; and C) RMB 1,221,000 due to Mr. Lin Dao Qing. The rationale for the Group to make such loans to 中国资源开发有限公司 through SHDYL is that the Group is financially incapable to repay the above-mentioned unsecured loans of RMB 10,143,000 which were repayable on demand in foreign currency in Hong Kong and hence the only viable compromise would be to make such loans of RMB 8,000,000 to their associates in RMB currency in China in return for a delay in their demand for full repayment of the above-mentioned call loans in Hong Kong.
4. Deposits to Shenzhen Ximei, being the sole supplier of the product "Jiajinyo", has decreased tremendously as a result of offset of purchase price of products delivered against the deposits placed by SHDYL at the time of signing of the exclusive distributorship agreement back in June 2017.
5. As disclosed in the company's Response to SGX Query 6(a)(b) (page 4) in its Response Announcement made on 20 September 2017, the receivables of RMB 266,000 from G Music represented an investment of HK\$ 301,379 in a couple of cooperative concert events held by G Music (HK) Limited in late 2016. The Company expects to receive a fair share in the net profit contributions derived from such events and to receive both the principal amount of such investments and the fair share in net profit contributions. The slight difference in RMB amount between 30 June 2017 and 30 June 2018 only reflected the change in currency exchange rate between HK Dollars and RMB.
6. As disclosed in the company's Response to SGX Query 6(a)(c) (page 4) in its Response Announcement made on 20 September 2017, the receivables of RMB 337,000 from FFG represented an investment of HK\$ 405,000 in a cooperative free-fight championship event organised together with Fight Factory Gym Limited in early 2017. The Company expects to

achieve a break-even position in this event and to receive back the principal amount of such investment. The slight difference in RMB amount between 30 June 2017 and 30 June 2018 also reflected the change in currency exchange rate between HK Dollars and RMB.

7. Due to compliance of the applicable Shanghai local tax rules and regulations, SHDYL has made prepayment of income tax to the local tax authorities in the amount of RMB 542,000 as of 30 June 2018. Such prepaid income tax is eligible for offset against future taxable income derived by SHDYL.

SGX Query (d)

- (d) It was further disclosed that “prepayments and other receivables of RMB 11.84 million as of 30 June 2018 (compared with RMB 29.51 million as of 30 June 2017) mainly represented (i) commercial loans made by Shanghai Daiyoulong to business associates of RMB 8.0 million which have been fully pledged against two loans due by the Company in the total amount of RMB 10.14 million as of 30 June 2018”.
 - i. Please elaborate who these business associates are and the term of the loans. Please also provide the rationale for the loans.
 - ii. Please also further elaborate on why they have to provide loans to each other. Please provide details of the nature of the loans and the use of proceeds of the loans to and from this associates.

Company’s Response to SGX Query (d)(i)

As stated under Explanatory Notes 3 to the Company’s Response to SGX Query (c) above, SHDYL has made loans in the total amount of RMB 8,000,000 to 中国资源开发有限公司 via its designated third party business associates in FY2018, these loans were interest-free and repayable on demand.

Such loans were made against a total pledge of RMB 10,143,000 for unsecured and interest-free loans owed by the Group as of 30 June 2018 to the following parties:

- A) RMB 7,573,000 due to 中国资源开发有限公司;
- B) RMB 1,349,000 due to Mr. Wong Chon Chong; and
- C) RMB 1,221,000 due to Mr. Lin Dao Qing.

The rationale for the Group to make such loans to 中国资源开发有限公司 through SHDYL is that the Group is financially incapable to repay the above-mentioned unsecured loans of RMB 10,143,000 which were repayable on demand in foreign currency in Hong Kong and hence the only viable compromise would be to make such RMB 8,000,000 loans to their associates in RMB currency in China in return for a delay in their demand for full repayment of the above-mentioned call loans in Hong Kong.

Company’s Response to SGX Query (d)(ii)

As stated in the Company’s Response to SGX Query 10(a)(i) (page 8) in its Response to SGX Queries Announcement dated 20 September 2017, the amount due to Mr. Lin Dao Qing of RMB 1,221,000 was for payments made by Mr. Lin on behalf of the Company. Such payments were mainly for general operating expenses and professional expenses. The payment of such sum on the Company’s behalf is unsecured, interest-free and has no repayment terms. Mr. Lin has not entered into any specific loan agreement with the Company.

As stated in the Company’s Response to SGX Query 10(a)(iii) (page 9) in its Response to SGX Queries Announcement dated 20 September 2017, the net amount due to 中国资源开发有限公司 of RMB 7,573,000 as of 30 June 2018 mainly represented the outstanding loan

amount of RMB 7,144,000 as of 30 June 2017 plus receipt of net additional loans of approximately RMB 429,000 in FY2018. The proceeds of the original loans of RMB 7,144,000 have been applied to the settlement of the Company's payroll, operating and professional expenses and the due payment of interest accrued on the Alternus Convertible Bonds and Straight Coupon Bonds during the financial year ended 30 June 2017. Such loans are unsecured, interest-free and repayable on or before 18 September 2018 at the discretion of the Company. Kindly refer to the Company's Response to SGX Query 6(iv) (page 6) in its Response to SGX Queries Announcement dated 6 November 2017 for a detailed summary of the utilisation of the net loan proceeds of RMB 7,144,000 by the Company as general working.

As stated in the Company's Response to SGX Query 7(i) (page 7) in its Response to SGX Queries Announcement dated 6 November 2017, Mr. Wong Chon Chong is a business associate introduced to the Company by Mr. Wang Huai Dong, the Company's previous Non-executive Chairman, who has expressed strong personal interest to enter into business cooperation with the Company with respect to the media and entertainment business once the Company intended to build and develop back in September 2016. Accordingly he was willing to lend certain amount of working capital to the Company in order to facilitate the Company's commencement of its media and entertainment projects back in December 2016 in the hope that he would be able to participate in future investments as a strategic investor.

As further stated in the Company's Response to SGX Query 7(ii) (page 8) in its Response to SGX Queries Announcement dated 6 November 2017, the amount of Mr. Wong's loans were primarily utilised for (i) the investment of approximately HK\$ 350,000 in the cooperative events held with G Music (HK) Limited; (ii) the investment of approximately HK\$400,000 in the cooperative event held with Fight Factory Gym Limited; and (iii) in the payment of approximately HK\$ 750,000 to acquire certain patent rights from Focus Licensing Ltd. for the development of a long-term amusement and entertainment project with other Hong Kong-based business partners.

SGX Query (e)

- (e) The Company disclosed that the "amount due to third parties of RMB 8.92 million as of 30 June 2018 (compared with RMB 8.45 million as of 30 June 2017) represented the amount due to unrelated third parties which is interest free and repayable on demand." Please provide details of these 3rd parties.

Company's Response to SGX Query (e)

	<u>30/6/2018</u> <u>RMB'000</u>	<u>30/6/2017</u> <u>RMB'000</u>
Amount due to 中国资源开发有限公司	7,573	7,144
Amount due to Mr. Wong Chon Chong	1,349	1,302
	8,922	8,446
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Explanatory Notes:

- As stated in the Company's Response to SGX Query 10(a)(iii) (page 9) in its Response to SGX Queries Announcement dated 20 September 2017, the net amount due to 中国资源开发有限公司 of RMB 7,573,000 as of 30 June 2018 mainly represented the outstanding

loan amount of RMB 7,144,000 as of 30 June 2017 plus receipt of net additional loans of approximately RMB 429,000 in FY2018. The proceeds of the original loans of RMB 7,144,000 have been applied to the settlement of the Company's payroll, operating and professional expenses and the due payment of interest accrued on the Alternus Convertible Bonds and Straight Coupon Bonds during the financial year ended 30 June 2017. Such loans are unsecured, interest-free and repayable on or before 18 September 2018 at the discretion of the Company. Kindly refer to the Company's Response to SGX Query 6(iv) (page 6) in its Response to SGX Queries Announcement dated 6 November 2017 for a detailed summary of the utilisation of the net loan proceeds of RMB 7,144,000 by the Company as general working.

As stated in the Company's Response to SGX Query 6(i), 6(ii) and 6(iii) (page 6) in its Response to SGX Queries Announcement dated 6 November 2017, 中国资源开发有限公司 is a privately owned company incorporated in Hong Kong principally engaged in the investment in natural resources related projects in China.

中国资源开发有限公司 has strong intentions to enter into business cooperation with the Company with respect to the Company's newly commenced distribution sales business in Shanghai and, as Shanghai Daiyoulong holds a significant amount of RMB bank deposits inside China, 中国资源开发有限公司 has ultimately agreed to assist the Company in resolving its short term funding difficulties outside of China.

To the best of the Company's knowledge and understanding, 中国资源开发有限公司 has no relationship with the Company's past or present Directors, substantial shareholders and/or senior officers.

The purpose of these loans was to provide the Company with temporary financing of its working capital needs, in particular at times of financial difficulties of the Company before the successful completion of the Issuance and the Placement in June 2017.

2. As stated in the Company's Response to SGX Query 7(i) (page 7) in its Response to SGX Queries Announcement dated 6 November 2017, Mr. Wong Chon Chong is a business associate introduced to the Company by Mr. Wang Huai Dong, the Company's previous Non-executive Chairman, who has expressed strong personal interest to enter into business cooperation with the Company with respect to the media and entertainment business once the Company intended to build and develop back in December 2016. Accordingly he was willing to lend certain amount of working capital to the Company in order to facilitate the Company's commencement of its media and entertainment projects back in December 2016 in the hope that he would be able to participate in future investments as a strategic investor.

As further stated in the Company's Response to SGX Query 7(ii) (page 8) in its Response to SGX Queries Announcement dated 6 November 2017, the amount of Mr. Wong's loans were primarily utilised for (i) the investment of approximately HK\$ 350,000 in the cooperative events held with G Music (HK) Limited; (ii) the investment of approximately HK\$ 400,000 in the cooperative event held with Fight Factory Gym Limited; and (iii) in the payment of approximately HK\$ 750,000 to acquire certain patent rights from Focus Licensing Ltd. for the development of a long-term amusement and entertainment project with other Hong Kong-based business partners.

SGX Query (f)

- (f) The Company disclosed that "the management notes that Shanghai Daiyoulong has thus far been able to achieve steady growth and sustainable sales revenue and reasonable gross profit contribution from this distribution sales business in the past reporting year. In this reporting year, the Group has recorded a significant growth, RMB 21.16 million in direct sales revenue and has reported a net operating loss after tax of RMB 15.48 million." Please provide an explanation why this new business is significantly loss making.

Company's Response to SGX Query (f)

Detailed breakdown of Consolidated statement of comprehensive income of AFH Group:

	<u>SHDYL</u> <u>RMB'000</u>	<u>OTHERS</u> <u>RMB'000</u>	<u>GROUP</u> <u>RMB'000</u>
Sales revenue	21,158	0	21,158
Cost of sales	-4,467	0	-4,467
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Gross profit	16,691	0	16,691
Other operating income	824	0	824
Selling and distribution expenses	-1,343	0	-1,343
Administrative expenses	-13,322	-14,474	-27,796
Finance costs	0	-712	-712
Income tax expense	-3,140	0	-3,140
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Comprehensive (loss) for the year FY2018	-290	-15,186	-15,476
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Explanatory Notes:

As shown in the above summary, SHDYL alone has contributed a significant amount of gross profit margin to the Group while achieving close to a breakeven financial result for FY2018. The trunk of Group's consolidated operating loss of RMB 15,476,000 was attributable to the operating and listing related costs incurred by the non-trading overseas entities of the Group.

Hence, the statement that "the management notes that Shanghai Daiyoulong has thus far been able to achieve steady growth and sustainable sales revenue and reasonable gross profit contribution from this distribution sales business in the past reporting year. In this reporting year, the Group has recorded a significant growth, RMB 21.16 million in direct sales revenue and has reported a net operating loss after tax of RMB 15.48 million." is considered to be factually correct and non-misleading.

By Order of the Board

Han Yue Gao
Executive Director
20 September 2018