

Independent auditor's report to the members of Asia Fashion Holdings Limited

Report on the Audit of the financial statements

Disclaimer of Opinion

We have engaged the financial statements of Asia Fashion Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the statements of financial position of the Group and the Company as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We did not express an audit opinion on the consolidated financial statements of the Group for the financial period ended 30 June 2016. Similarly to the financial year ended 30 June 2017, our audit report contained the following bases for the disclaimer of opinion:

The Company

1(i) Unverified transactions of the associated company group, opening balances and recoverability of balances

As reported in the auditor's report for financial year ended 31 December 2014, there were unverified transactions of the associated company group, Rich Circles and its subsidiaries due to the fact that at that material time, no reasonable access was given to examine sufficiently the documentation that will adequately support the acquisition which took place as well as certain transactions that were recorded in the accounting books of Rich Circles and its subsidiaries.

As of the date of this report, the RMB 61 million loan which includes a carried forward loan of RMB 49 million and a loan of RMB 12 million extended in 2016 and the interest thereon owing by Rich Circles to the Company have not been repaid. There is also a loan of RMB 51 million owing by Rich Circles to a shareholder, Ms. Li Ya Xin which has not been repaid.

Subsequent to the financial year end, the Chief Operating Officer of the Company, Mr. Huo Weisheng entered into a letter of intent with the Company and the shareholder, Ms. Li Ya Xin to propose the acquiring of the shares held by each party for a sum of RMB 40 million and RMB 20 million respectively. On completion of the proposed sale of shares, the Company and the shareholder agree to waive the loan amount of RMB 61 million and RMB 51 million extended to Rich Circles respectively. To the date of this report, the said letter of intent did not materialise.

On the basis of the foregoing paragraphs, we were unable to determine the extent of goodwill, if any, due to lack of financial information at the time of acquisition.

On the basis of the matters referred to above, we were unable to obtain sufficient evidence to ascertain the recoverability of the loan totalling RMB 61 million owing by Rich Circles to the Company as at 30 June 2017. The financial statements did not include any adjustments that would be necessary if the amounts are not recoverable.

Independent auditor's report to the members of Asia Fashion Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Company (Cont'd)

1(ii) Pending disposition of associated company group subsequent to the date of this report

As mentioned in Note 7 to the financial statements, towards the end of the financial period ended 30 June 2016, the Chief Operating Officer of the Company, Mr. Huo Weisheng was in negotiation to sell the Group's entire interest of 54.46% in Rich Circles and its subsidiaries (collectively known as the "associated company group") due to the default of the SME bond of RMB 180 million due on 28 March 2016. The Chief Operating Officer of the Company, Mr. Huo Weisheng had been making attempts to renegotiate the settlement of this debt securities which had been extended once in the financial year 2014. As mentioned in Note 7 to the financial statements, there were on-going litigation cases against Xuzhou Zhongwei made by the bondholders as at 30 June 2017. Based on the available public information, there were a total of eighteen reported cases filed against Xuzhou Zhongwei, which includes the application to the Court for Orders of freezing of assets.

Mr. Mak Tin Sang indicated that he is not able to gain access to the books and records of Xuzhou Zhongwei for the purpose of our audit.

As reported in the financial year 2016, we were not allowed access to the books and records accordingly. However, on 12 August 2017, we paid a plant visit located at Pizhou and noted that there were no inventories noted and the machinery had been idle. All books and records cannot be found in the premises. All locks and chains were found to be rusty. The building was run-down and not under occupied conditions. The building remained vacant except for a watchman.

Please refer to the paragraph 1(i) for change of events subsequent to financial year ended 30 June 2017.

On the basis of the matters referred to above, there was a limitation of scope and no alternative procedures could be performed due to circumstances beyond the control of the Company and the Group and which caused us not able to obtain sufficient appropriate audit evidence. As a result, we were unable to determine the adjustments, if any, or presentations and disclosures to be made to this financial statements.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material statement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Independent auditor's report to the members of Asia Fashion Holdings Limited (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of these financial statements in accordance with Singapore Standards on Auditing (SSAs) and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion paragraph of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on whether the accounting and other records to be kept by the Company have been properly kept.

Other Matters

The 2016 audited report dated 11 November 2016 on the financial statements contained a disclaimer opinion on the appropriateness of going concern of the Group and the Company, which was resolved for the financial year ended 30 June 2017. Please refer to Note 2(a) on going concern for details.

The Company and The Group

Going concern

HK\$10 million straight bond

On 4 March 2015, the Company raised a bond of RMB 7.9 million (HK\$10 million) to provide working capital for the Company and the Group. This bond had interest carried at 10% which was due on 3 March 2017 and extended to 4 May 2017, at an interest rate of 12% per annum.

During the financial period ended 30 June 2016, the Company made an interest payment of HK\$1 million (RMB 0.793 million) to the bond holder.

S\$2.66 million convertible bond

On 5 March 2015, the Company further raised RMB 11.9 million by way of issuance of convertible bonds of S\$2.66 million bearing an interest rate of 7% per annum for working capital purpose which matured on 4 March 2017 and extended to 4 June 2017, at an interest rate of 9% per annum.

The above bonds, together with the accrued interest, were fully paid in tranches during the financial year ended 30 June 2017.

The engagement partner on the audit resulting in this independent auditor's report is Yeo Boon Chye.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 15 September 2017