

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 4 September 2017 (the “**Announcement**”) on the responses to queries from the Singapore Exchange Securities Trading Limited (“**SGX**”) in relation to, *inter alia*, the Company’s announcement on 13 June 2017 on the entry into an exclusive distribution agreement (the “**Distribution Agreement**”) by its wholly-owned subsidiary, Shanghai Daiyoulong New Materials Limited (上海戴优垒新材料有限公司) (“**SHDYL**”) with 烯美科技 (深圳) 有限公司 (“**Shenzhen Ximei**”), a Shenzhen manufacturer of nano-based health foods, in respect of a special branded product named “Jiajinyo” (the “**Product**”). 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 1

We refer to the Company’s further response to SGX Query 5 (the further response was set out in the Company’s announcement dated 4 September 2017), which states that “*Currently “Jiajinyo” is sold by SHDYL under the “general food” license. As such, no specific certification or testing of the product is required by the relevant drug and medicine authorities in the People’s Republic of China.*”

Please confirm that the sale of “Jiajinyo” under the general food license is in compliance with the relevant rules and regulations in the People’s Republic of China, given that it is marketed and sold as a health product. Please provide the Company’s legal adviser’s opinion on the aforementioned. Please identify the legal adviser.

Company’s Response to SGX Query 1

The Company confirms that the sale of “Jiajinyo” under the general food license is in compliance with the relevant rules and regulations in the People’s Republic of China (“**PRC**”) as this is marketed and sold only as a “health supplement” product with no specified or committed standards or impact to the users’ health condition. This position has been confirmed by Shanghai Shenlun Lawyer Firm (“**SSLF**”), the PRC legal counsel retained by SHDYL to provide necessary legal advice on the conduct of its business in the PRC.

SGX Query 2

We refer to the Company’s further response to SGX Query 6 (the further response was set out in the Company’s announcement dated 4 September 2017), which states that “*As far as our new distribution sales business in connection with SHDYL is concerned, Shenzhen Ximei has taken on legal liabilities on claims that may be made by the users of the product due to, inter alia, inferior quality of products received. This has been clearly stated in the exclusive distribution agreement signed by both parties.*”

- a. Please clarify if the abovementioned means that Shenzhen Ximei will bear all legal and financial liabilities arising from the distribution and sales of the “Jiajinyo” product by SHDYL (including any potential future liabilities)?
- b. Please provide details on the size and financial strength/position of Shenzhen Ximei to bear any costs of damages/claims. Please disclose details of the due diligence undertaken by the Audit Committee and the Board to assure themselves of such representation.

- c. Did the Company perform any legal and financial due diligence before the entry into the exclusive distribution agreement? If yes, please disclose the identity of the professionals which undertook the due diligence. If not, please explain why not.
- d. Please provide a legal opinion (and identify the legal adviser) as to whether the Group's assets and sufficiently ring-fenced based on the terms of the exclusive distribution agreement.

Company's Response to SGX Query 2(a)

The Company confirms that, according to the legal opinion expressed by SSLF, Shenzhen Ximei shall bear all legal and financial liabilities arising from the distribution and sales of the "Jiajinyo" product, and in particular, the claims that can be made by the users of the "Jiajinyo" product due to, *inter alia*, inferior quality of products supplied by Shenzhen Ximei to SHDYL.

Company's Response to SGX Query 2(b)

The Company wishes to state that as the nature of its relationship with Shenzhen Ximei is that of a distributorship of products for consumers as opposed to an equity investment or joint venture relationship, the level and scope of the due diligence conducted prior to the commercial decision to enter into the exclusive distribution agreement with Shenzhen Ximei for the promotion and distribution sales of this product to its end-users was scaled to the appropriate level.

This included the Audit Committee and the Board satisfying itself that physical inspections had been conducted personally by SHDYL local management on Shenzhen Ximei's head office in Shenzhen to ascertain its sound establishment, and that sampling of the products had been undertaken by SHDYL local management for a certain period of time.

In terms of due diligence on the financial position of Shenzhen Ximei, the Audit Committee and the Board satisfied itself based upon searches conducted by the SHDYL local management from publicly available resources, which reported that Shenzhen Ximei is a wholly-owned subsidiary of a Hong Kong incorporated company with a paid-up capital of RMB 30 million called "Tiger Global Investment Group Limited".

The Company has also conducted its own searches from publicly available resources and is informed that Shenzhen Ximei has, on 18 April 2017, entered into a joint venture agreement with the Jian County Government (吉安县人民政府) for the establishment of a "Graphene Industrial Park" project with a total targeted investment amount of RMB 10 billion Yuan (please refer to the link <https://read01.com/zh-hk/zmxzmA.html> for the above news release).

In light of the above, the Company is satisfied as to the financial strength of Shenzhen Ximei as a credit-worthy trading business partner.

Company's Response to SGX Query 2(c)

In relation to the due diligence in respect of Shenzhen Ximei's financial position, kindly refer to our response stated in 2(b) above.

In relation to legal due diligence on Shenzhen Ximei, in addition to our verification to the existence and continued operation of Shenzhen Ximei based on physical inspections conducted and sampling of the products of Shenzhen Ximei, we have also engaged SSLF to conduct a comprehensive review of the subject exclusive distributor agreement. SSLF has provided its legal opinion of its review to the satisfaction of the Company.

Company's Response to SGX Query 2(d)

The Company, through SHDYL, has discussed the feasibility of engaging a legal advisor to provide a conclusive legal opinion as to whether the Group's assets are sufficiently ring-fenced based on the terms of the exclusive distribution agreement with SSLF. The Company was informed by SSLF that such determination by any legal advisor was not practically feasible as the legal advisor to be

engaged would lack the accurate measurement yardsticks with respect to the Group's assets which varies from time to time.

SHDYL has nevertheless sought the verbal advice from SSLF that the maximum financial liabilities exposure with respect to the exclusive distribution agreement is the fulfilment of procuring a minimum quantity of 600,000 units of the product in the first 12 months from the date of signing of the exclusive distribution agreement. As such, the maximum exposure would be less than 10% of the Group's assets as disclosed in the Company's Annual Report 2017.

The Company also wishes to take the opportunity to provide an update on this newly commenced business to its shareholders. The Company is pleased to state that as at the date of this response, SHDYL has already purchased approximately 30% of the committed annual purchase target of the products from Shenzhen Ximei and has resold the same to our customers. For the information of our shareholders, the SHDYL local management is glad to report that for the period commencing from the date of the first delivery of the product to our customer in the last week of June to date of this response, SHDYL has not received any complaint or claims for loss from any of our customers in connection with the use of such products. On the contrary, SHDYL has received several compliments from some of our customers on the satisfactory quality of the product which SHDYL has sold to them. As such, the management is confident that the distribution sales of "jiajinyo" product by SHDYL would continue at a reasonably stable rate and with sustainable momentum, and would concurrently provide the Company with a platform to expand its distribution sales business to cover other proven and reliable health supplement products going forward.

By Order of the Board

Chong Tin Yam, Alex
Executive Director and Chief Executive Officer
23 November 2017