



Certified Public Accountants

*Asia Fashion Holdings Limited*

*Addendum to  
Internal Audit Report  
dated 11 August 2014*

15 October 2014

Asia Fashion Holdings Limited  
c/o Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11 Bermuda

**Attention: The Audit Committee**

Dear Sirs

**Asia Fashion Holdings Limited  
Addendum to Internal Audit Report dated 11 August 2014**

We are pleased to provide an update of our findings highlighted in our Internal Audit Report dated 11 August 2014 (“Original Internal Audit Report”). Our scope of work is limited to evaluating the effectiveness and efficiency of these additional/revised control procedures set forth in Section 1.3.

We have carried out our work through interviews with certain officers of the two key subsidiaries, namely Fujian Qianfeng Textile Technology Co., Ltd (“Qianfeng”) and Fujian Jiamei Textile Co., Ltd (“Jiamei”), both incorporated in the People’s Republic of China (“PRC”) (collectively, the “Key Subsidiaries”) and review of documents made available to us by the Key Subsidiaries. We have relied on but we have not verified the truth and accuracy of all information or material provided or made available to us during our engagement. We do not assume any responsibilities and make no representation with respect to the accuracy or completeness of any information provided to us by the Key Subsidiaries. Accordingly, our findings may not have identified all matters that might be of concern to you.

Our findings are based on relevant documents and information made available to us up to the date of this report. Documents or information provided to us after this date may have an impact on our findings. We reserve our right to amend or update any part of our findings as and when such documents or information are made available to us.

Our engagement does not constitute either an audit or a review made in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements and, consequently, we do not express any assurance on the Report. Had we performed additional procedures or had we performed an audit or a review in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the use and benefit of the Company and is not to be used, quoted or referred to, in whole or in part, for any other purpose or to be made available to any other party without our prior written consent. We do not accept responsibility and we expressly disclaim liability for loss occasioned to any other party acting or refraining from acting as a result of our report.

If you require any clarification or further information, please do not hesitate to contact Braven Tan at (65) 6323 1928.

Yours sincerely

A handwritten signature in blue ink that reads 'HLB Atrede LLP'.

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## Executive Summary

### 1. Introduction

#### 1.1 Background

In our Original Internal Audit Report, management of AFHL had responded that they will review our recommendations and implement additional/revised control procedures to address those areas that require improvements.

We have been requested by the Audit Committee of Asia Fashion Holdings Limited to update our findings relating to those areas that were identified as “Area of Improvement” in our Internal Audit Report dated 11 August 2014.

#### 1.2 Key Management and Officers Interviewed

The key management and officers of the Key subsidiaries that we have interviewed comprise:

Name	Appointment
Su Chiho (苏吉河)	General manager (“GM”) of both Qianfeng and Jiamei
Tang Qiao Qin (唐巧琴) (“Tang”)	Finance manager of both Qianfeng and Jiamei
Zhang MaoLiang (张茂良) (“Zhang”)	Quality control technical director

#### 1.3 Objective and Scope

The key objective for this engagement is to evaluate the effectiveness and efficiency of the additional/revised control procedures implemented by management to address our findings highlighted in our Original Internal Audit Report.

Our scope of work is limited to evaluating the effectiveness and efficiency of these additional/revised control procedures which are summarized below.

Areas of Improvement	Additional/Revised Control Procedures
Legal Claims from Customers	<ul style="list-style-type: none"><li>Finance department will perform daily reconciliation of delivery orders issued against stock records.</li><li>Any discrepancy during the reconciliation will be followed up and errors (if any) will be rectified.</li></ul>

<b>Areas of Improvement</b>	<b>Additional/Revised Control Procedures</b>
Production and Delivery	<ul style="list-style-type: none"> <li>• Final inspection before delivery is no longer required.</li> <li>• Ensure compliance with revised policy.</li> </ul>
Payment Authorisation Limit	<ul style="list-style-type: none"> <li>• Alignment of payment control policy with those approved by the Board of AFHL.</li> <li>• Ensure compliance with revised payment control policy.</li> </ul>

We have carried out our work to assess the adequacy and effectiveness of the above control procedures primarily by interviewing officers and key management; and performing tests on randomly selected transactions from records provided by management for the period from 15 August 2014 to 15 September 2014. We have not ascertained the completeness of the records provided.

Our engagement does not constitute either an audit or a review made in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements and, consequently, we do not express any assurance on this report.

## **1.4 Detailed Observations and Recommendations**

### **A. Legal Claims from Customers**

#### ***Background***

Discrepancies were noted between finance department's monthly consolidated records and certain delivery orders issued to the 8 Claimants to fulfill the Key Subsidiaries' obligation under the Compensation.

#### ***Additional control procedures***

- Finance department will perform daily reconciliation of delivery orders issued against stock records.
- Any discrepancy during the reconciliation will be followed up and errors (if any) will be rectified.

**Observation**

We had enquired with Tang Qiao Qin and were informed that the financial department had performed daily reconciliation of delivery orders issued against the stock records. No report was however prepared as there had not been any difference between the delivery orders issued and the stock records.

We had performed a comparison of a sample of delivery orders issued with the stock records and noted no discrepancies.

**B. Production and Delivery**

***Background***

It was stated in section 5.2.9.4 of 产品搬运, 包装, 存储于防护管制程序 that all final products checking records (出货检查记录表) must be authorised by the warehouse manager and quality control manager. However, this document was no longer in use as the products were checked before they were transferred to and stored in the warehouse (pending delivery to customers).

It was also stated in section 5.2.9.5.2 of 产品搬运, 包装, 存储于防护管制程序 that all delivery order must be acknowledged by the sales department and checked and signed by the security department before the products were loaded to the transport vehicle. In our Original Internal Audit Report, it was documented that, of the 30 random samples selected, one delivery order was not acknowledged by the security department and four delivery orders were not acknowledged by the sales department.

It was recommended that management should review their policies and procedures to determine if a final inspection should be carried out before the products are delivered to the customers. If such procedure is not considered necessary, management should revise the policy and procedures manual.

It was also recommended that the Key Subsidiaries should adhere to policies and procedures stipulated in the manual.

***Revised control procedures***

Final inspection before delivery is no longer required.

***Observation***

We had obtained and sighted the deletion of the procedure to perform a final inspection from the manual.

We had tested 30 random samples and noted that the selected delivery orders were acknowledged by the sales department and checked and signed by the security department before the products were loaded to the transport vehicle.

## **C. Payment Authorisation Limit**

### ***Background***

It was noted that the payment control policy provided by the Key Subsidiaries differs from those payment control policy approved by the Board of AFHL.

It was also noted that no supporting documents were attached with the payment vouchers.

It was recommended that the Key Subsidiaries align the payment control policy with those approved by the Board and more care be exercised in the handling of all documents.

### ***Revised control procedures***

The payment control policy was revised as follows:

- i. Payments of RMB 0.5million and below: Requestor →Department head → Finance Manager (“FM”) → General Manager (“GM”)→ Cashier processes
- ii. Payments of RMB 0.5 to 1 million: Requestor →Department head → FM →CFO→GM→ Cashier processes
- iii. Payments of RMB 1 to RMB 5 million: Requestor →Department head →FM→ CFO→GM→ Chairman → Cashier processes
- iv. Payments of RMB 5 million and above: Requestor →Department head →FM→ CFO→ GM→ Chairman →Board→ Cashier processes

The legal representative had also been included as an alternate to the General Manager in the event of his absence.

### ***Observation***

We had tested 21 random samples and noted that the payment control policy set out under the above revised control procedures had been adhered to. Supporting documents were also sighted to.

The legal representative had also been included as an alternate to the General Manager in the event of his absence, subject to prior approval given by the General Manager in writing.

## **1.5 Acknowledgement**

We wish to thank the management and staff of Asia Fashion Holdings Limited and its subsidiaries who have assisted us during our work.

## 1.6 Disclaimers

HLB Atrede LLP's findings are based on relevant documents and information made available to us up to the date of this report. Documents or information provided to us after this date may have an impact on our findings. We reserve our right to amend or update any part of our findings as and when such documents or information are made available to us.

HLB Atrede LLP's findings are intended only for the benefit of the Audit Committee and for no other purpose. We do not accept or assume responsibility for our work, and our findings thereof, to anyone.

Our work will not be planned or conducted in contemplation of reliance by any third party. Therefore, items of interest to a third party have not been specifically addressed and matters may exist that may be assessed differently by a third party.

You shall not make copies of our findings available to other persons without our prior written consent. We do not owe any duty of care (whether in contract, tort (including negligence) or otherwise) to any person, except under the arrangements described in the Letter of Engagement and Term of Business.

HLB Atrede LLP has not been asked to (and it has not) commented on, reviewed or assessed the validity, authenticity or enforceability of the documents provided to HLB Atrede LLP. The procedures that HLB Atrede LLP performed under this engagement do not constitute an audit or review in accordance with generally accepted auditing or attestation standards. HLB Atrede LLP has not audited or otherwise verified the information supplied to it in connection with its work from whatever source.

In addition, our comments do not represent legal advice/interpretation. You should consult with your legal counsel with respect to any legal matters or items that require legal interpretation. As a result of our restricted access to information and/or documents, we have also not been able to undertake a full review of the Key Subsidiaries' compliance with other relevant rules and regulations.

It should be borne in mind that all internal control systems contain inherent limitations. These include errors of human judgement in decision-making, breakdowns due to human failure and control circumvented by collusion of two or more people overriding the internal control system. Accordingly, material error or loss may still occur when internal control systems are evaluated to be adequate and sound.

We would like to draw your attention that this engagement is performed solely to update our findings based on the additional/revised control procedures set forth in Section 1.3. It is not our scope to identify any additional material control weaknesses or opportunities to enhance the controls, save for those that were highlighted in our Original Internal Audit Report. The responsibility for establishing and maintaining an effective internal control including systems designed to ensure compliance with policies, procedures, applicable laws and regulations solely rests with management.