

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FOURTH QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE FULL YEAR ENDED 31 DECEMBER 2013

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) refers to its announcements on 8 April 2014 on the Unaudited Fourth Quarter Financial Statement and Dividend Announcement for the Full Year Ended 31 December 2013. 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 23 April 2014 (each, a “**SGX Query**”) as follows:

SGX Query 1:

It was disclosed in page 11 that “the Group achieved a gross profit of RMB20.6 million in FY2013 as compared to a gross loss of RMB7.3 million in FY2012.” Please provide a review to discuss the gross profit reported in FY2013.

Response –

The gross loss of RMB7.3 million in FY2012 was due mainly to (i) a compensation of RMB 8 million paid, which was accounted as sales discount (reversed from selling and distribution expenses), and (ii) a write-off of inventory amounting to RMB11.7 million in 4Q2012. Without taking the exceptional items into account, the Group shall report a gross profit of RMB12.4 million in FY2012, or gross profit margin of 7.1%, as compared to a gross profit margin of 13.2% in FY2013. The increase in the gross profit margin was mainly due to cost savings in headcount and other variables.

SGX Query 2:

It was disclosed in page 3 that the “Compensation payable – current portion is RMB17.4 million”. Please provide a breakdown how is this computed in view that the Company has up to 2018 to offset the compensation amount.

Response –

The breakdown for the computation of the amount of RMB17.4 million of compensation payables, which is reflected as current liabilities, is as follows:

	<u>RMB'000</u>
Total compensation	461,500
Less:	
Compensation settled in cash @ 30 September 2013	300,000
Further 8% discount	36,920
	<hr/>
	124,580
Compensation settled via offsetting against trade receivables @ 31 December 2013	(37,450)
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	87,130

Disclosed as:

- Current liabilities	17,400
- Non-current liabilities	69,730
	<u>87,130</u>

RMB17.4 million was disclosed as current liabilities as this is repayable in FY2014. RMB69.73 million was disclosed as non-current liabilities as this was intended to be repayable over the period from March 2015 to March 2019, and an amount equivalent to RMB629,000 (disclosed below) was offset against January 2014's sales.

The payment schedule for these amounts are as follows:

Repayable over:	<u>RMB'000</u>
- offset against trade receivables in January 2014	629
- March 2014 to February 2015	17,400
- March 2015 to February 2016	19,963
- March 2016 to February 2017	19,080
- March 2017 to February 2018	18,619
- March 2018 to February 2019	10,379
- By march 2019	1,060
	<u>87,130</u>

Note: The above amounts to be set-off against trade receivables from March 2014 to March 2019 and the payment schedule were determined based on the minimum products to be supplied by the Company's subsidiary, Fujian Qianfeng Textile Technology Co., Ltd, to the respective claimants, as determined by the arbitrators on 13 March 2014 pursuant to the arbitration proceedings disclosed by the Company on 28 March 2014.

SGX Query 3:

It was disclosed that "According to the Peak Vision Appraisals Limited's preliminary valuation report, there was a shortfall of RMB210.8 million to the carrying value of the Company's non-current assets and consequently an impairment loss of RMB210.8 million has been recognized..." Please provide breakdown of the said RMB210.8 million and quantify the major changes in assumptions which resulted in the significant impairment.

Response -

The breakdown of impairment loss of RMB210.8 million is as follows:

Unquoted equity investments	<u>RMB'000</u>
Loans to subsidiaries	59,088
	151,724
	<u>210,812</u>

The impairment loss was determined based on the valuation report from Peak Valuation using the value-in-use approach and after taking into account the compensation payable, cash and other receivables as follows:

Enterprise Value	<u>RMB'000</u>
Less: bank loans	12,614
Recoverable amount	(9,363)
	<u>3,251</u>
Less:	
Cost of investment	(62,339)
Loans to subsidiaries	(151,724)
Total impairment losses	<u>(210,812)</u>

SGX Query 4:

It was disclosed that “Other income of RMB13.0 million comprises the write-back of provision for compensation to distributors amounting to RMB11.6 million...” Please elaborate on the reasons for the write back.

Response –

The breakdown of “Other Operating Income” for FY2013 was disclosed as follows:

	<u>RMB'000</u>
Sale of scrap materials	313
Interest income	1,088
Write-back of provision for compensation to distributors	<u>11,562</u>
	<u>12,963</u>

The write-back of provision for compensation to distributors arose from the discontinuation of the Company’s partnership with Goodyear Inc.. The amount of RMB11.6 million relates to the portion of compensation to distributors that was no longer required to be paid, as the distributors have agreed to a reduced amount of compensation pursuant to the revised settlement agreements entered into with the distributors during the year.

SGX Query 5:

It was disclosed that “Administrative expenses were RMB20.8 million... due mainly to lesser travelling and office expenses as well as no licensing fee payable to Goodyear Inc. for current year”. Please quantify and provide breakdown of these expenses and elaborate on material changes.

Response –

The details of “Administrative Expenses” for FY2013 is as follows:

	<i>FY2013</i>	<i>FY2012</i>	<i>Differences</i>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
- Depreciation expenses	1,218	1,788	(570)
- Research and development fee paid for garment products	-	5,396	(5,396)
- Research and development fee for other products	2,683	3,057	(374)
- Staff costs	6,064	9,981	(3,917)
- Staff welfare costs	2,862	3,194	(332)
- Licensing fee paid to Goodyear	-	698	(698)
- Travelling and entertainment expenses	769	1,449	(680)
- Other miscellaneous items	7,192	6,901	291
	<u>20,788</u>	<u>32,464</u>	<u>(11,676)</u>

The cost savings in 2013 in Administrative Expenses were due mainly to the discontinuation of garment products, decrease in staff cost due to lower headcount, discontinuation of licensing fee paid to Goodyear Inc, and reduced travelling and entertainment expenses.

SGX Query 6:

It was disclosed that “Amount due to a director/shareholder of RMB1.5 million relates to expenses paid on behalf for the Company”. Please provide details on the terms of the loan and the details of the underlying transactions.

Response –

The loan is interest-free and there are no fixed terms of repayment. The loan was provided by Mr Lin Daoqin to the Company for the payment of the professional fees of the Group, which included (i) audit fees of RMB 0.6 million, and (ii) due diligence expenses of RMB 0.9 million.

SGX Query 7:

We refer to paragraph 9 of the Announcement. Please comment whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its 3Q2013 results announcement dated 12 November 2013.

Response –

The Company made the following commentary prospects in paragraph 10 of the Company's 3Q2013 results announcement dated 12 November 2013:

“As announced by the Company on 15 August 2013 and 24 September 2013, the Company intends to raise approximately S\$2,900,000 from a proposed placement exercise for working capital purpose.

As announced by the Company on 1 November 2013, the Company intends to undertake a capital reorganisation to reduce the par value of the ordinary shares of the Company from US\$0.05 each to US\$0.005 each to facilitate the Proposed Placement. More details on the proposed capital reorganisation is set out in the circular to shareholders dated 4 November 2013.”

This is in line with the Company's comments in paragraph 10 of its 3Q2013 results announcement dated 12 November 2013. The commentary made on prospects in paragraph 10 of the Company's 3Q2013 results announcement dated 12 November 2013 does not have any impact on paragraph 9 of the Announcement as it was not in relation to forecasts or prospects for the Company.

By Order of the Board

Lin Daoqin
Executive Director and Chief Executive Officer
24 April 2014