Boshiwa

BOSHIWA INTERNATIONAL HOLDING LIMITED
博士蛙國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1698)

UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING

References are made to the Announcements date 5 April 2012, 7 November 2012, 8 November 2012 and 15 March 2013.

The Board wishes to provide an update to the Shareholders regarding the latest development of the Suspension.

References are made to the announcement of the Company dated 5 April 2012 in relation to the establishment of Special Investigation Committee, the announcement dated 7 November 2012 in relation to the conditions for resumption of trading and the announcements dated 8 November 2012 and 15 March 2013 both in relation to updates on recent development of suspension of trading (collectively, the "**Announcements**"). Unless otherwise defined, capitalised terms have the same meaning as defined in the Announcements.

The Board wishes to provide an update to the Shareholders regarding the latest development of the Suspension.

PwC (the independent professional adviser appointed by the Special Investigation Committee) has compiled a report (the "**Report**") in respect of their forensic investigation exercise (the "**Forensic Investigation Exercise**") on the matters raised by Deloitte in its resignation letter dated 13 March 2012, so as to assist the Special Investigation Committee to complete its investigation/clarification on such matters. The scope and limitations of the Forensic Investigation Exercise and a summary of the key findings from the Report are set out below.

SCOPE OF THE FORENSIC INVESTIGATION EXERCISE

The Forensic Investigation Exercise focused on the matters raised by Deloitte in its resignation letter dated 13 March 2012, namely (1) the existence and commercial substance of recorded prepayments amounting to RMB392,000,000 with a supplier of the Group; (2) the existence of specified OK card distributors, merchandise distributors and trade suppliers of the Group; and (3) the commercial substance of recorded transactions with these entities (the "**Outstanding Matters**").

The procedures of the Forensic Investigation Exercise included the following:

- obtained and reviewed the Special Investigation Committee investigation report, working papers and investigation related correspondence between the Stock Exchange and the Special Investigation Committee;

- obtained and reviewed the investigation related correspondence between the Deloitte audit team and the Special Investigation Committee;

- conducted interviews with management team of the Group to gain further knowledge on the Outstanding Matters;

- performed basic company searches on the 16 counterparties (the "**Targets**") identified in the correspondence between Deloitte and the Board and the audit committee of the Group dated 11 January 2012, 20 January 2012, 21 February 2012 and 2 March 2012 ("**Deloitte's Letters**"), in order to identify any direct relationships with the Group;

- performed basic company searches on 2 former subsidiaries/associated companies of the Group which were not identified in Deloitte's Letters but may help to prove the relationship between the Company with its 3 former subsidiaries/associated companies included in the Targets to identify their shareholders, directors, business addresses and other relevant information to understand their relationship with the Group;

- performed site visits on 14 selected counterparties in relation to the Outstanding Matters and interviewed their representatives at their operating addresses;

- obtained and analyzed the accounting data on sales and procurements in 2011;

- collected and reviewed documents for recorded prepayments amounting to approximately RMB392 million made to 上海榮華紡織染整製衣有限公司 (Shanghai Ronghua Textile Dyeing Garments Co., Ltd., "**Ronghua Textile**") in the second half of 2011 to ascertain the existence and commercial substance of such prepayments;

- performed sample walk through tests on transactions with selected suppliers, merchandise distributors and OK card distributors of the Group identified in Deloitte's Letters to ascertain the existence and commercial substance of such transactions;

- forensically imaged 20 computers used by 20 employees (the "**Custodians**") of the Group;

- forensically imaged the accounting system used by the Group and downloaded the emails from email accounts used by the Custodians which were saved on third party email server;
- extracted and analyzed electronic documents collected, including removing duplicate electronic documents, screening electronic documents through a keyword search, and extracted selected electronic documents accordingly;
- reviewed the electronic documents selected through keyword search and determined the relevancy of these documents with the Outstanding Matters, to understand the background, commercial substance and the comprehensive facts of relevant transactions; and
- performed ad hoc search on the electronic documents collected based on high-relevancy documents identified.

LIMITATIONS OF THE FORENSIC INVESTIGATION EXERCISE

The Forensic Investigation Exercise was subject to the following limitations:

- Deloitte declined to attend a meeting with PwC for discussion in relation to the reason of Deloitte's resignation, any of Deloitte's concern on management behaviours and any suggestion on PwC's future work;
- PwC's requests to perform site visits on 3 counterparties in relation to the Outstanding Matters and to interview their representatives were rejected by those 3 entities;
- a large number of original records surrounding the Outstanding Matters which PwC could only review copies of these documents;
- certain key written documents in relation to transactions between the Group and the OK card distributors were not kept by the Group and hence could not be provided to PwC, including but not limited to the application forms issued by the OK card distributors to the Group, the activation records and the reconciliation documents between the OK card distributors and the Group; and
- certain key documents have yet to be provided at the date of the Report.

SUMMARY OF KEY FINDINGS

The existence of specified OK card distributors, merchandise distributors and trade suppliers (including Ronghua Textile) of the Group

Based on company search results independently obtained by PwC, PwC noted that the Targets (which include OK card distributors, merchandise distributors and trade suppliers of the Group) are duly registered with the Administration for Industry and Commerce. PwC, accompanied by the Company's management (the "**Management**"), visited the majority of the Targets at their operating addresses and noted that these entities appeared to be operating. However, in PwC's independently arranged visits during office hours on two different working days, PwC noticed that the operating address (楊浦區政益路 28 號 904 室) of one of the merchandise distributors (namely 上海榮佰貿易有限公司 (Shanghai Rongbai Trade Co., Ltd., "**Rongbai Trade**") appeared to be closed.

Relationship between the Company and the Targets

PwC noted that 3 of the Targets are former subsidiaries of the Group and are controlled by individuals who are former employees of the Group. Management of these 3 entities confirmed that apart from normal trading activities with the Group, they operate independently from the Group. Certain documents have been identified through electronic documents review which suggested that there are interactions between the Company and these 3 entities (and another 2 entities which are not amongst the Targets but are also former subsidiaries/associated companies) outside of the normal course of trading business as follows:

1. The Group's legal department helped 2 of these entities to prepare documents regarding the change of their shareholders. The Management explained that they helped prepare such documents because of the long-term personal relationships between the Management and the owners of these entities. The Management further advised that the Group has no involvement in the structuring of such transactions; and

2. Certain shareholders/employees of these entities appear to be included in the Group's payroll records of 2009 and 2010. The custodian of these documents advised that she had no idea about why these documents were found in her computers and thus could not provide further assistance in this regard in the initial interview. In the second interview to clarify the matter, the same custodian advised that she did not tell PwC the truth in the first interview due to her own ignorance. She advised that the documents PwC identified relate to an arrangement in 2008 where the Group agreed to provide RMB2 million of financial support to the management of these five disposed subsidiaries in order to mitigate the social impact of the disposal of these subsidiaries in preparation of the Group's initial public offering. PwC was provided with a Board memo dated 18 January 2008 which is consistent with such explanation. According to a Board memo dated 5 March 2013, the total payment was about RMB1.6 million. The Management advised that such practice ceased in 2011.

Prepayments amounting to RMB392,000,000 with Ronghua Textile

1. PwC noted from the Group's financial information that the prepayment to Ronghua Textile as of October 2011 was not consistent with the breakdown Deloitte stated in their letters. The Management advised that they do not know how Deloitte came up with such figure and confirmed that all prepayments to Ronghua Textile as of October 2011 were made for procurement of garments and stores decoration.

2. PwC noted from the Group's financial information that, (i) the prepayments to Ronghua Textile as of December 2011 amounted to RMB470.6 million (of which about RMB75.8 million relates to stores decoration handled by Ronghua Textile); and (ii) it showed a payable of RMB78.1 million to Ronghua Textile as of December 2011. The Management advised that such payable balance relates to payments made by Ronghua Textile on behalf of the Group regarding the Group's logistics project in Jinshan. The net balance due from Ronghua Textile as of December 2011 is therefore about RMB392 million.

3. The Legal Representative of Ronghua Textile estimated the 2011 year-end prepayments balance from the Group at about RMB60 million in the initial interview which is inconsistent with the Group's financial information. As there is no reconciliation statement available, PwC was unable to reconcile the difference. In the second interview to clarify this matter, the Legal Representative of Ronghua Textile advised that he misunderstood PwC's questions in the initial interview. He further confirmed that the 2011 year-end prepayment balance should be about RMB470 million.

PwC noted that of the total payments of RMB1,155 million made by the Group to Ronghua Textile during 2011, the Management was unable to provide any documents (e.g. procurement contracts) to substantiate about RMB32 million of such payments. The Management advised that due to such overpayment, Ronghua Textile refunded RMB45.6 million to the Group in December 2011. There remains an unexplained discrepancy of about RMB13.6 million and it is unclear why the Group did not utilize such overpayment for future procurement or settlement of liabilities due to Ronghua Textile.

PwC reviewed 32 bank slips and 96 procurement contracts which, according to the Management, made up the RMB392 million prepayments to Ronghua Textile. PwC noted that there is an approximately RMB5 million discrepancy between the contract amount and the prepayment amount (i.e. not 100% of the contract sum were prepaid as advised by the Management and the timing of payment also differs from the contract dates). The Management advised that the prepayments were not made exactly matching the contracts due to ongoing trading relationship with Ronghua Textile throughout the year.

PwC reviewed the goods receiving notes and VAT invoices in relation to the above 96 procurement contracts and noticed that the Group received the goods relating to these procurement contracts between January 2012 and May 2012.

PwC noted that a number of contracts signed with Ronghua Textile were cancelled or with a much longer delivery period or using duplicated contract numbers. The Management advised that the Group did not keep a record on contract numbering until late 2012 and the contracts using duplicated contract number were result of clerical mistake. The contracts numbered with mistake were subsequently cancelled.

Transactions with specified suppliers in 2011

PwC were informed by Ronghua Textile, 上海榮臣針織有限公司 (Shanghai Rongchen Knitting Co., Ltd.) and Rongbai Trade that a substantial part of their business (over 90%) was with the Company in 2011.

上海侃億諾紡織品有限公司 (Shanghai Kanyinuo Textile Co., Ltd., "**Kanyinuo Textile**") refused PwC's request to visit them. According to company search result, WU Zhiti, owner of Shanghai Jingguan Purification Equipment Co., Ltd. (one of the Targets) which PwC has visited and interviewed, also owns 40% interest in Kanyinuo Textile. WU Zhiti advised during PwC's interview that he only owns about 20% share of Kanyinuo Textile, which is inconsistent with the company search result. He also advised that he had no involvement in the day to day operation of Kanyinuo Textile and he had very limited communication with other shareholders of Kaiyinuo Textile so he could not provide any details as to the dealings between Kanyinuo Textile and the Group.

Transactions with specified merchandise distributors and OK cards distributors in 2011

The total sale to the nine regional distributors in 2011 is about RMB673 million, which accounts for about 30% of total revenue in 2011. The sales in the last quarter of 2011 increased sharply to RMB488 million (approximately 73% of 2011 total). The Management advised that the increase in sales to these regional distributors was due to the planned set up of a large number of new stores by these regional distributors in late 2011 to meet the development plan of the Group. However, the Management was unable to provide details of these new stores to be set up (e.g. number and location). The Management also advised that another major contributor for the increase is that the Group transferred the operations of 67 stores owned by the Group to these regional distributors in December 2011 (another 2 were transferred in January 2012). The Management advised that the primary objective of such transfer is to allow the regional distributors to control and operate all stores in their locality so as to improve operational efficiency.

The transfer agreements with these regional distributors stipulated that a total of RMB76 million of inventory was sold to these distributors when these 67 stores were transferred in December 2011. The Management advised that the sale of products to these regional distributors continued to rise subsequent to the transfer of these 67 stores and reached RMB293 million in December 2011 (compared to a monthly average of RMB36 million in the first 11 months of 2011). The Management explained that the significant increase in sales to these regional distributors in December 2011 was a result of these regional distributors' planned growth in sales volume in 2012 and the one off transfer of inventory mentioned above.

The transfer agreements also stipulated the sale of fixed assets (such as decorations in the stores) to the regional distributors. However, the said agreements did not provide details (e.g. list of assets or value) of fixed assets to be sold. The Management advised that the sale of fixed assets did not actually take place. The Management also could not explain to PwC's satisfaction how the staff and contracts (e.g. leases) of these stores were transferred to the distributors.

The Management advised that due to unsatisfactory performance of some of these stores, these distributors transferred the operations of 34 large stores (together with the inventory in these stores) to the Group in October 2012 for about RMB580 million. The 34 stores included 14 stores transferred by the Group to these distributors in 2011/2012 and 20 stores set up by these regional distributors. As a result, the Management made an adjustment of approximately RMB496 million on 2011 revenue in the Group's IFRS financial statements. The Management advised that the net impact on 2011 gross profit was about RMB200 million. PwC did not verify the propriety of such adjustments.

PwC understood that the sales connected with OK card distributors was about RMB340 million in 2011 and the aggregate accounts receivable ("**AR**") balance as of the end of 2011 was about RMB135 million. The Management advised that during the first seven months of 2012, the total payment received from these OK card distributors was about RMB125 million. The Management advised that there was no specific written reconciliation between the payments and AR balance in 2011. However, they followed the first-in-first-out rule to settle the AR balance. PwC checked the relevant bank slips with no exception identified.

VIEWS OF THE SPECIAL INVESTIGATION COMMITTEE

After review of the Report by and several sessions of deliberation amongst the Special Investigation Committee, the Special Investigation Committee believes that the Report has made various clarifications on the Outstanding Matters raised by Deloitte and expresses the following views:

1. In relation to the prepayments amounting to RMB392,000,000 with Ronghua Textile, there is sufficient relevant documentation to support the relevant transactions. The Group had received the relevant goods between January 2012 and May 2012 and the relevant transactions had been completed. Therefore, Deloitte's allegations against the Company should not exist;

2. In relation to the existence of specified OK card distributors, merchandise distributors and trade suppliers of the Group, the counterparties (which are not connected persons of the Company as defined under the Listing Rules) are in existence;

3. As to the commercial substance of the transactions with specified OK card distributors, merchandise distributors and trade suppliers of the Group, there is sufficient documentation to support the existence of the transactions between the Group and the counterparties (which are not connected persons of the Company as defined under the Listing Rules);

4. There is no evidence which suggests that Deloitte's allegations against the Company can be proven;

5. The transactions between the Company and Ronghua Textile were conducted within normal course of trading business in the PRC, and were not of a nature which would constitute a breach of the Listing Rules; and

6. The Special Investigation Committee is satisfied that, based on the information compiled in the Report thus far, the transactions between the Company and the relevant counterparties as mentioned above were conducted within normal course of trading business and operations. There is no finding of extraordinary trading activities between the Company and the counterparties.

By Order of the Board of
Boshiwa International Holding Limited
Zhong Zheng Yong
Chairman

Shanghai, 26 April 2013

As at the date of this announcement, the executive Directors are Mr. Zhong Zheng Yong, Ms. Chen Li Ping, Mr. Chen Pei Qi and Mr. Wu Ge, the non-executive Director is Mr. Li Shu Jun and the independent non-executive Directors are Mr. Chong Cha Hwa, Dr. Jiang Chang Jian and Mr. Li Zhi Qiang.