TAIFENG®

CHINA TAIFENG BEDDINGS HOLDINGS LIMITED
中國泰豐床品控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 873)

CLARIFICATION ANNOUNCEMENT IN RELATION TO THE PROPOSED CHANGE OF AUDITORS

The board (the "Board") of directors (the "Directors") of China Taifeng Beddings Holdings Limited (the "Company") refers to the announcement of the Company dated 25 June 2015 in relation to the delay in publication of annual results for the year ended 31 December 2014 and proposed change of auditors (the "Announcement").

Unless otherwise stated, capitalized terms defined in the Announcement shall have the same meanings when used in this announcement.

PROPOSED CHANGE OF AUDITORS

The Board of the Company refers to BTHK's letter of resignation, in which BTHK also stated that it needs to perform extended audit procedures during the course of the 2014 Audit in order to finalize the 2014 Audit. The Board would like to provide supplementary information as follows:

1. EXPENSES FOR CHANNEL RESTRUCTURING PLAN

The Group paid a lump sum payment of RMB649,309,000 for restructuring its existing distribution channels for some of its existing or previous distributors based on the turnover made in previous and current years. As disclosed in the Company's announcement dated 12 December 2014, the payment was made for the purpose of expanding its marketing network and obtaining market share in the Chinese home textile industry by clearing their inventory, buying back stock, rationalising the sales network and formulating specific measures to restructure the accounts receivable of certain particular participants. However, the Group has recognised the expenses for channel restructuring plan in the profit or loss statement directly in preparing the consolidated financial statements for the year ended 31 December 2014. As at the end of the reporting period, the outstanding receivable balances of some of these distributors are amounted to RMB635,306,487 and there is no an impairment loss are recognised in profit or loss in the year in relation to these distributors.

In performing our planned audit procedures on this transaction, we are unable to obtain sufficient audit evidence on the inventory clearing up, stock buying back, sales channels restructuring and receivables restructuring. In addition, we are unable to obtain sufficient appropriate audit evidence to ascertain the existence and commercial substance of this transaction.

2. TRADE RECEIVABLES AND SALES RECOGNITION

The Group's revenue for the year ended 31 December 2014 is amounted to RMB1,261,041,000 (2013: RMB2,147,618,000) in which included a domestic sales of RMB1,261,041,000 (2013: RMB2,123,766,000). In accordance with the tax rules promulgated by the Ministry of Finance and the State Administration of Taxation in the People's Republic of China (the "PRC"), value added tax invoice must be issued for all the relevant domestic sales made by a local company. In performing our planned audit procedures, we find that the Group has not issued value added tax invoices to some of its customers which included its major customers. Management of the Company explained that the Group has filed and paid the amount of value added tax in accordance with the relevant PRC tax rules; however, taking into consideration of the balance of the trade receivables as at the end of the reporting period is amounted to RMB1,062,708,000 (2013: RMB419,910,000), we are unable to ascertain the rationale and commercial substance of such arrangement.

3. FINANCIAL GUARANTEE CONTRACTS AND PROVISION FOR COMPENSATION

The Group recognised a provision for compensation of RMB198,520,000 (2013: RMB18,239,000) as a result of defaults by borrowers and litigation claims initiated by bankers against the subsidiary of the Company, Shandong Taifeng Textile Co. Ltd, as one of the guarantors taken place in this year in relation to certain financial guarantees provided to certain third parties in previous years. In performing our planned audit procedures, we find that the Group has provided certain financial guarantees to one of their major customer and supplier, Taifeng Textile Group Company limited, and certain unrelated third parties in previous years; however, the Group has not established and maintained proper and stronger internal control procedures to record and account for such transactions. As a result, we are unable to verify the completeness and the rationale of these transactions; although the management of the Company has provided us subsequently the list of financial guarantee provided to third parties and valuation reports for measuring the values of these outstanding financial guarantee contracts. We are unable to carry out any alternative audit procedures to satisfy ourselves the completeness and valuation of these transactions, and we are unable to determine whether any adjustments are necessary in respect of these transactions in the consolidated financial statements for the years ended 31 December 2013 and 2014.

4. IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT, TRADEMARK AND TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

As required by Hong Kong Accounting Standard 36 (the "HKAS36") "Impairment of Assets", an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Taking into consideration of the Group's substantial gross loss of RMB98,283,000 (2013: gross profit of RMB627,588,000) in this year and the going concern indicators as set out in note 3 to the consolidated financial statements, the Group should estimate the recoverable amounts of its property, plant and equipment of RMB376,943,000 (2013: RMB425,228,000), trademark of RMB6,934,000 (2013: RMB6,934,000) and trade and other receivables and prepayments of RMB1,312,192,000 (2013: RMB1,465,179,000) and consider whether these assets have been impaired. At the end of the reporting period, the Group has identified that there were certain indications of impairment of the above named assets, and therefore, the Group appointed an independent valuer to perform valuations to assess the recoverable amounts of these assets as at the end of the reporting period. An impairment loss is recognised for each Cash Generating Unit ("CGU"), if and only if the recoverable amount is less than the carrying amount of that CGU, the valuer estimated the value in use of two CGUs for the manufacture and distribution of the cotton yarns and the bedding products as the recoverable amount of these assets. The estimation is prepared using discounted cash flow forecast approach, cash flow projections of the CGUs from 1 January 2015 to 31 December 2019, which are prepared by the management ("Cash Flow Projections") and assumptions that represent management's best estimate of the economic conditions that will exist over the remaining useful life of the respective CGU. The management of the Company considered no impairment loss should be recognised for property, plant and equipment, trademark and trade and other receivables and prepayments as at 31 December 2014 with reference to the result of the above valuation.

However, due to the Group's substantial gross loss and the going concern indicators mentioned above, we are not provided with reliable information by the Company to assess the appropriateness of the management's assumptions adopted in the Cash Flow Projections. As a result, we are unable to obtain sufficient appropriate audit evidence on the assumptions of the Cash Flow Projections. Any adjustments found to be necessary to the amounts provided for the impairment would have an effect of the Group's net assets as at 31 December 2014 and consequently, the net loss for the year then ended, and the related disclosures thereof in the consolidated financial statements.

5. MATERIAL FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

The Group has encountered a number of circumstances giving rise to material fundamental uncertainties. During the year, the Group has defaulted in repayment of certain bank borrowings amounted to RMB229,166,000 (2013: RMBnil) and monthly instalments of financial lease payments amounted to RMB61,742,000 (2013: RMBnil), although the Group has cash and bank balance amounted to RMB837,020,000 (2013: RMB1,443,090,000) as at the end of the reporting period. Management of the Company is not able to provide an explanation with sufficient appropriate audit evidence to demonstrate the rationale for these defaults and solid actions to mitigate other uncertainties. Taken into consideration of the other uncertainties and matters discussed in previous paragraphs, we are unable to obtain sufficient appropriate audit evidence for us to assess the validity of the going concern assumption which depends on the continuing financial support from its bankers and creditors and the Group's ability to generate adequate working capital in the near future. The existence of these material fundamental uncertainties casts significant doubt on the Group's ability to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect a realisation basis which includes, where appropriate, writing down the Group's assets to net realisable value, and providing for any contractual commitments that become effective at the end of the reporting period. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

The Board has to state that the above supplementary information are statements made by BTHK before carrying out the extended audit procedures which they considered necessary. The Board also emphasizes its disagreement with the views expressed in items 1 and 2 above by BTHK, and the time required for, and the possible additional fees on, the proposed extended audit procedures of BTHK are unacceptable to the Board. The Company has established a Special Investigation Committee and intends to engage a forensic accounting firm to conduct an independent review on items 1, 2 and 3 above pointed out by BTHK, with the aim of publishing the 2014 annual results as soon as possible and minimizing the impact of the suspension of trading on the shareholders and business partners.

By order of the board of
China Taifeng Beddings Holdings Limited
Liu Qingping
Chairman

Hong Kong, 19 July 2015

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. LIU Qingping, Mr. LI Dengxiang, Ms. QI Tongli and Mr. ZOU Shengzhong; and three independent non-executive Directors, namely, Mr. CHAN Kin Sang, Mr. LI Yuchun and Mr. DAI Shunlin.