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BOER POWER HOLDINGS LIMITED
博耳電力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1685)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO (1) THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 AND (2) THE SHAREHOLDERS LOAN

Reference is made to (i) the annual report of Boer Power Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2015 dated 30 March 2016 (the "**Annual Report**"); and (ii) the announcement (the "**Announcement**") of the Company dated 5 April 2016 in relation to a three-year, unsecured, and interest-free loan in the approximate amount of RMB500 million which the Controlling Shareholders undertook to grant to the Group. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as defined in the Annual Report and the Announcement.

Further to the information disclosed in the Annual Report and the Announcement, the Company wishes to provide Shareholders and potential investors with the following supplementary information.

PRIOR YEAR ADJUSTMENTS – INTERNAL CONTROLS AND REMEDIAL ACTIONS

Factoring arrangements are value-added arrangements that the Group offers to selected customers since 2012, which reduce the customers' time pressure to make payments and reduce the Group's outstanding trade receivables. Effectively, when the Company enters into a factoring arrangement with a bank and a customer in relation to certain trade receivables from the customer, the Company assigns the trade receivables to the bank in exchange for payment by the bank for the acquisition of the creditor's right. The customer agrees to settle the outstanding amount with the bank upon maturity. The Company is not under any obligation to repay any outstanding amount owed to the bank under the factoring arrangement in the event that the customer fails to pay upon maturity. Consequently, such trade receivables are derecognised from the Company's trade receivables balance when the Company is paid in full by the bank.

However, due to failure of certain customers of the Company to settle the amount owed to the banks upon maturity, the Company had since 2013 on an ad-hoc basis provided financial assistance to such customers to settle the amount owed to the banks in order to maintain an ongoing relationship with the banks and the customers. Once such arrangements took place, the proper accounting treatment would have been to book the amount repaid on behalf of the customers as loans to customers.

Factoring arrangement was a relatively new business arrangement for the Company and the finance department, and when problems in relation to customers' ability to make payment pursuant to such arrangements began to manifest in 2013, the Company failed to take necessary steps to ensure that such problems were properly recorded, monitored and addressed as and when they occurred. The following sets out the principal failures of the Company that caused the prior year adjustments ("**Issues**") as set out in the Annual Report:

– failure of the management to anticipate the complexity of the factoring arrangements and the demand on operational resources required to monitor and address evolvement of the related matters when they occurred;

– failure to implement and follow existing procedures to record and monitor the problems as they were addressed;

– failure of the Company to systematically implement, and monitor adherence with, recommended internal financial accounting procedures; and

– failure of certain personnel in the finance department to properly account for the loans to customers in the accounts of the Group and to take prompt and proper remedial measures subsequently.

Due to the above stated failures, the Board was not fully informed, and was not in a position, to fully appreciate the actual financial status of the Company until it was brought to their attention during the audit of the financial statements of the Company for the year ended 31 December 2015. There was also no reason, prior to the occurrence of the Issues, to doubt the management of the finance department as the Company had considered that there were no red flags or major weaknesses with regard to the financial reporting cycles of the Company based on the independent professional accounting firm's reports and/or the findings of the internal control team regarding the processes of the finance department. However, the Company realises that the internal control team has not been effective and has failed in the execution of its duties and responsibilities in relation to the factoring arrangements mainly due to lack of human resource and inadequate understanding of the factoring arrangements. In response, the Company has immediately implemented additional internal control measures, as set forth in the paragraph headed "Remedial Actions" below, to address failures discovered by the Company's internal investigation as well as enhance internal control in general.

Information on Non-adherence to Internal Control Policies and Procedures Leading to the Prior Year Adjustments

Since 2014, the Company has engaged an independent professional accounting firm to conduct annual high-level risk assessment and gap analysis of the Company's internal control risks of selected processes and produce yearly reports thereof. Prior to March 2016 when the need for prior year adjustments was discovered, the Company had considered that there were no red flags or major weaknesses with regard to the financial reporting cycles of the Company based on the independent professional accounting firm's reports.

Although the Company has laid down various internal policies and procedures, they have not been systematically implemented or adhered to. The following are instances of non-adherence to internal policies and procedures in the Company's dealing with factoring arrangement related transactions:

1. The Company failed to timely recognise payments to banks in settlement of customers' debt under the factoring arrangements as account receivables from such customers. This is in violation of the Company's "Financial Management System" which, among other things, requires that "each account receivable should be analysed and accounted for."

2. The "Financial Management System" stipulates that the finance department shall be responsible for providing statistics for, controlling and assessing the account receivables, and timely reporting to the relevant departments the complete and up-to-date state of the account receivables. However, the finance department did not adhere to this and did not timely report to the relevant departments the complete and up-to-date state of the account receivables.

3. The "Financial Management System" also stipulates that the Company's bookkeeping should follow the double-entry system upon the accrual principle. The finance department failed to follow these principles and properly book the loans to customers, payments to banks and financing for customer loans.

4. The "Financial Management System" requires that each bank account transaction be individually and discreetly posted in the Company's ledger; multiple transactions must not be aggregated with only the sum total booked, or offset against each other with only the net balance booked. However, the finance department failed to comply with the principle of posting each bank account transaction discreetly and individually.

5. The Company's "Factoring Risk Management Procedures", among other things, require factoring business managers to review each factored item on at least a monthly basis and produce a review work logbook, and to conduct on-site review of such item at least once a quarter and produce factoring review report. The report should also be submitted to the Company's risk management department for review. While the managers had conducted the abovementioned reviews, they had not produced the review work logbook or the factoring review report so that no submission of such reports were made to the risk management department.

6. The “Factoring Risk Management Procedures” also require that customers which entered into factoring agreements should periodically provide the Company with their financial reports containing a balance sheet, an income statement and a cash flow statement. However, not all customers periodically provided such financial statements and the factoring business managers did not urge the customers to provide such financial statements.

Remedial Actions

The Company is committed to taking remedial actions to tighten its internal control procedures with a view to preventing recurrence of similar incidents in the future. In January 2016 the Company set up a new internal audit department (not the same as and independent of the previous internal control team) responsible for conducting internal audit and strengthening internal control. The Company has approached the same independent professional accounting firm to understand the operation of the Company and the insufficiencies and risks it is subject to. The Company requested that the independent professional accounting firm to provide recommendations and that the independent professional accounting firm has provided service proposals on (a) the improvement of internal control; (b) internal audit system implementation, and (c) the implementation of an ERP system, and recommend the Company to implement such proposals.

As such, the Company will make improvements in the following three areas:

1. Factoring related risk management;

2. Credit and accounts receivable management; and

3. Finance and cash management standards.

The specific measures which will be taken include the following:

1. The internal audit team will review and verify all bank statements against the Company’s books and records during the period from January to June 2016. If no discrepancy is found in this exercise, the internal audit team will, from July 2016 onwards, perform a random sampling of ten transactions from each bank account and verify them against the corresponding books and records on a monthly basis. If lending and borrowing are found, the internal audit team will obtain and review the relevant loan agreements;

2. The internal audit team will regularly obtain from the risk management department the review work logbooks and factoring review reports;

3. The internal audit team will regularly obtain from the risk management department the financial reports;

4. The internal audit team will regularly review the finance department to ascertain whether it has timely reported to the relevant department the complete and up-to-date state of the account receivables, and obtain such related information in written or email form;

5. The internal audit team will attend quarterly professional training either conducted internally or provided by external organizations;

6. The Company will implement in its employee handbook penalty measures for failing to perform the above measures;

7. The Company will recruit additional experienced and knowledgeable staff to the finance department to ensure its effective and efficient operation;

8. The Company will appoint additional experienced independent non-executive directors, especially those well versed in finance and in the Group's business, to the Board; and

9. The Company will review on an ongoing basis the reviews and reports of the procedures to be carried out above, and when found necessary, to establish committees, departments or ad-hoc teams to resolve or address specific issues identified.

LOAN FROM THE CONTROLLING SHAREHOLDERS

As disclosed in the Announcement, on 5 April 2016, the Company and the Controlling Shareholders entered into a tentative verbal agreement pursuant to which the Controlling Shareholders undertook to grant the Group a three-year, unsecured, and interest-free loan in the approximate amount of RMB500 million (the "**Shareholders Loan**") in support of the Group's various business development initiatives in 2016. Subsequently, on 13 April 2016, the Company and the Controlling Shareholders entered into a written agreement in respect of the Shareholders Loan.

As of the date of this announcement, the Company has drawn approximately HK$178,000,000 (equivalent to RMB149,520,000*) of the Shareholders Loan for working capital and repayment of bank loans.

No amount of the Shareholders Loan granted or proposed to be granted to the Company is intended to be used by the Company as loans to customers in connection with the factoring arrangements.

The Board confirms that the above supplemental information does not affect the other information contained in the Annual Report or the Announcement.

By Order of the Board
Boer Power Holdings Limited
Qian Yixiang
Chairman

Hong Kong, 27 May 2016

As at the date hereof, the Board comprises (i) four executive Directors: Mr. Qian Yixiang, Ms. Jia Lingxia, Mr. Zha Saibin and Mr. Qian Zhongming; (ii) one non-executive Director: Mr. Zhang Huaqiao; and (iii) two independent non-executive Directors: Mr. Yeung Chi Tat and Mr. Tang Jianrong.

* *Based on the exchange rate as at the date of announcement: HK$1:RMB0.84.*