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BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
寶峰時尚國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1121)

**ACTION PLANS TO ADDRESS AUDIT MODIFICATIONS FOR
THE YEAR ENDED 31 DECEMBER 2016**

Reference is made to the disclaimer of opinion expressed by and the material uncertainty in relation to going concern raised by the former auditor of Baofeng Modern International Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in the independent auditor’s report for the year ended 31 December 2016 (the “**FY2016 Auditor’s Report**”) set out in the annual report of the Company for the year ended 31 December 2016 (the “**FY2016 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning ascribed to them in the FY2016 Auditor’s Report and the FY2016 Annual Report.

The disclaimer of opinion was related to (i) recognition of certain of the Group’s intangible assets in accordance with International Accounting Standard 38; and (ii) impairment assessment of the Group’s intangible assets under International Accounting Standard 36.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to provide an update to its shareholders and potential investors on the Company’s action plans and progress to address such audit modifications.

Disclaimer of opinion

Limitation of scope – Recognition of certain of the Group’s intangible assets in accordance with International Accounting Standard 38

During the year ended 31 December 2016, the Group had incurred certain amount of costs of RMB92,378,000 and capitalized these costs as intangible assets (the “**Deferred Development Costs**”). The former auditor was of the view, among others, that due to the lack of supporting documentary evidence, it was not provided with sufficient appropriate evidence regarding how the specified criteria set out in IAS 38 to justify the recognition of the Deferred Development Costs as an intangible asset had been satisfied and hence was not able to justify whether the Deferred Development Costs should be recognised as an intangible asset in accordance with IAS 38. The former auditor also considered that there were no alternative audit procedures to satisfy itself concerning these matters.

Limitation of scope – Impairment assessment of the Group’s intangible assets under International Accounting Standard 36

During the year ended 31 December 2016, an impairment loss of approximately RMB325,616,000 in respect of Technology Know-how intangible assets was recognised by the Group. The former auditor was of the view, among others, that (i) it had not been able to obtain sufficient appropriate audit evidence to satisfy itself that the key assumptions (e.g. bases regarding the related forecasted revenue including the estimated sales prices and estimated sales quantity) adopted in the valuation of the cash generating unit in which the Technology Know-how and O2O distribution vending system intangible assets belonged were reasonable and supportable; (ii) the forecasted revenue was based on limited market data and in its view the other key assumptions used in the valuation did not adequately take into account the challenges in the operating environment that the Group would be facing in the future; and (iii) details on feasibility aspects of the marketing plans of the intangible assets provided to it were very limited.

Action plans to address the audit modifications

After the discussion with the current auditor of the Company, based on the audit committee's recommendations, the Company is now providing the following information on the valuation of the intangible assets and the latest business development to the current auditor of the Company before the announcement of the annual results for the year ended 31 December 2017 by end of March 2018 in order to resolve the issues giving rise to the disclaimer of opinion expressed by the former auditor of the Company:

- (i) the updated business plan with detailed information including but not limited to project background, market analysis, business model, product pricing and marketing and promotion plan for the graphene-based EVA foam material and graphene-based slippers and graphene-based sterilizing chips for air purifiers and air conditioners, energy storage materials for batteries and pressure sensitive lighting devices for shoes for which the Deferred Development Costs were incurred;
- (ii) the updated financial model with financial data such as the sales and costs of graphene-based products updated in accordance with the latest development of the market and the operation of the Group;
- (iii) the latest location distribution of the O2O vending machines of the Group and the location distribution plan from 2018 to 2024; and
- (iv) the sales record of graphene-based products for the year ended 31 December 2017 including but not limited to the sales figures of customized graphene-based slippers sold by the O2O vending machines and the graphene-based EVA foam material sold directly to the manufacturers.

The management of the Group will also fully cooperate with the current auditor of the Company and keep communicating with them to ensure that they will be able to obtain all required documents and information available to the Company for the audit.

Material uncertainty in relation to going concern

As set out in the FY2016 Auditor's Report, the Group incurred a net loss of approximately RMB317,578,000 for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB107,196,000. These conditions indicated that a material uncertainty existed that might cast significant doubt on the Group's ability to continue as a going concern.

During the year ended 31 December 2017 and up to the date of this announcement, the total trade finance facility and other banking facility obtained by the Group amounted to approximately RMB168,000,000 which is adequate to meet the obligations arising from the estimated committed capital expenditure and fixed overhead for the new O2O distribution vending machines business and the estimated amount of working capital required for the next 12 months. The Board and the audit committee of the Company consider that the material uncertainty in relation to going concern should no longer exist as at the date of this announcement.

On behalf of the Board
Baofeng Modern International Holdings Company Limited
Zheng Jingdong
Chairman

Hong Kong, 28 February 2018

As at the date of this announcement, the executive Directors are Mr. Zheng Jingdong and Mr. Leung Tsz Chung; the non-executive Director is Ms. Lin Weihuan; and the independent non-executive Directors are Ms. An Na, Mr. Chen Shaohua and Professor Zhao Jinbao.