中國寶沙發展控股有限公司
CHINA BOZZA DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Provisional Liquidators Appointed)
(For Restructuring Purposes)
(Stock code: 1069)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report of China Bozza Development Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2019 (the "**2019 Annual Report**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2019 Annual Report.

In addition to the information provided in the 2019 Annual Report, the Board would like to provide further information in relation to the impairment losses on trade receivables and the disclaimer of opinion (the "**Audit Qualification**") issued by the auditor of the Company (the "**Auditor**") in relation to the consolidated financial statements of the Group for the year ended 31 December 2019.

IMPAIRMENT LOSSES ON TRADE RECEIVABLES

(i) Details of the underlying reasons for, or the events and circumstances leading to the recognition of the impairment

The impairment approach in HKFRS 9 is based on expectations as opposed to incurred losses under the predecessor accounting standard. This means it is not necessary for a loss event to occur before credit losses are recognised. Instead, a loss allowance is recognised for expected credit losses and is remeasured at each reporting date for changes in those expected credit losses. HKFRS 9 is purposefully designed to be forward looking and reflect expectations of future credit events impacting loans and receivables on the statement of financial position. It is important when determining what 'forward looking' information should be used as it must reflect the forward-looking information that existed at the reporting date.

At the reporting date, the COVID-19 pandemic was affecting all major economic and financial markets, resulting in many sectors facing challenges associated with the economic conditions. As the pandemic evolved, the management expected all entities to experience conditions often associated with a general economic downturn, including, but not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and other restructuring activities. Contingent on the continuation of these circumstances a potential broader economic downturn could result with a prolonged negative impact on the Group's financial results.

(ii) Impairment assessment and determination

In assessing impairment loss on trade receivables, no independent valuation was performed.

The Group recognised loss allowances for ECL on trade receivables of RMB35,803,000, largely based on historical losses and a statistical analysis of the historical data to determine the loss rates used to determine the ECL. Meanwhile, in determining the recoverability of the trade receivables, the Company has been from time to time monitoring such business to ensure that the impairment loss on trade receivables would be properly reflected. The Group recognised an additional allowance of RMB25,747,000 for certain receivables from a customer which is in financial difficulty.

(iii) Board of Directors' assessment on the fairness and reasonableness of the impairment

In determining the recoverability of the trade receivables, the management had from time to time during the financial period, communicated with the debtors about their financial condition. Based on the Group's understanding from the foregoing communication and the results of its review on their respective financial information and after taking into account their repayment history and certain forward-looking factors specific to each of them, especially on the effect on the COVID-19, the Group recognised the impairment losses on trade receivables of RMB61,550,000. The Directors considered that the amount of the impairment loss was fair and reasonable.

As at 31 December 2019, the amount of trade receivables, net of impairment losses, was RMB7,050,000. The Directors were not aware of any significant recoverability problem on those trade receivables and expected that those trade receivables would be settled in the future.

AUDIT QUALIFICATION ISSUED BY THE AUDITOR

(i) Details of the audit qualification and directors' view on the audit qualification

As detailed in Note 2 to the consolidated financial statements for the year ended 31 December 2019 and the section headed "Extracts of Independent Auditor's Report" in the Corporate Governance Report ("**Going Concern Disclosure**") (as set out in the 2019 Annual Report), conditions existed such to indicate the existence of material uncertainties which may cast significant doubt regarding the Group's ability to continue as a going concern.

The Directors are of the view that the Group will, based on the action plan (as detailed in Note 2), have sufficient cash resources to satisfy future working capital and other financing requirements as and when they fall due in the next twelve months from the reporting date.

Due to the potential interaction of the multiple uncertainties regarding the action plan of the Company and the possible cumulative effect on the consolidated financial statements, it is not possible for the Auditor to form an opinion on the consolidated financial statements. Accordingly, the Auditor issued the Audit Qualification.

(ii) Audit committee's view on the audit qualification

The audit committee of the Company (the "**Audit Committee**") had strictly reviewed the Audit Qualification and also the management of the Group's (the "**Management**") position and action plan of the Group to address the Audit Qualification. The Audit Committee is in agreement with the Management with respect to the Audit Qualification and the Group's ability to continue as a going concern, and in particular the actions or measures to be implemented by the Management or the Group.

The Audit Committee's views are based on (i) a strict review of the Management's action plan to address the Audit Qualification (and the assumption of successful and continued implementation) and also (ii) discussions between the Audit Committee and the Auditor and the Management, respectively, regarding the Audit Qualification.

The Audit Committee is of the view that the Management should continue its efforts in implementing the actions and measures set out in the action plan as detailed in the Going Concern Disclosure with the intention of mitigating the Group's liquidity pressure and removing the Audit Qualification.

The above additional information does not affect other information contained in the 2019 Annual Report and, save as disclosed in this announcement, the remaining contents of the 2019 Annual Report remain unchanged.

(iii) Removal of the audit qualification

As disclosed in the Company's announcement dated 3 December 2020, the Company is under the debt restructuring. The Company and the joint provisional liquidators are making a debt restructuring plan (the "**Restructuring Proposal**") with respect to the necessary steps which need to be taken in order for the Restructuring Proposal to be successfully implemented to allow the Company to continue as a going concern. The Company believes that there will be reasonable basis upon which Audit Qualification would to be removed in connection with the audit of the consolidated financial statements of the Group for the year ending 30 June 2021.

By order of the Board
China Bozza Development Holdings Limited
(Provisional Liquidators Appointed)
(For Restructuring Purposes)
Professor Fei Phillip
Chairman and Executive Director

Hong Kong, 5 February 2021

As at the date of this announcement, the Board comprises Professor Fei Phillip, Mr. Li Wenjun, Mr. Wang Yue, Mr. Ng Kwok Hung Perry and Mr. Pang Kin Lung as executive Directors; Mr. Gu Sotong as non-executive Director; and Ms. Tian Guangmei, Mr. Liu Zhaoxiang and Dr. Tse Kwok Sang as independent non-executive Directors.