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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)

**KEY FINDINGS OF FORENSIC INVESTIGATION
IN THE DRAFT FORENSIC REPORT
AND
UPDATES ON RECENT DEVELOPMENTS OF
SUSPENSION OF TRADING**

Reference is made to the announcements of China Taifeng Beddings Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 March 2015, 31 March 2015, 1 April 2015, 17 April 2015, 22 May 2015, 2 June 2015, 25 June 2015, 19 July 2015, 22 July 2015, 7 August 2015, 31 August 2015, 28 October 2015, 5 February 2016, 18 May 2016, 27 June 2016 and 29 September 2016 (the “**Previous Announcements**”), in relation to, amongst other matters, latest status of fulfilling the resumption conditions. Unless the context otherwise requires, capitalized terms used in this announcement shall have the same meanings as defined in the Previous Announcements.

The Company wishes to provide its Shareholders with a further update on the progress in the fulfillment of the Resumption Conditions.

As part of the Resumption Conditions, on 28 October 2015, the Company engaged FTI as our independent forensic specialist to conduct a forensic investigation on the Audit Issues raised by BTHK in its resignation letter dated 25 June 2015.

FTI has now issued the draft forensic investigation report (the “**FTI Report**”). A summary of the FTI Report in relation to the work involved in the investigation and the key findings are set out below in this announcement.

KEY FINDINGS OF FORENSIC INVESTIGATION IN THE DRAFT FORENSIC REPORT

Below is a summary of the key findings of FTI in the forensic investigation:

Background

On 25 June 2015, the former auditor of the Company, BTHK identified the Audit Issues from the Group’s financial statements for the year ended 31 December 2014 and tendered their resignation as the Group’s auditor. Trading of the Company Shares has been suspended since 26 February 2015. In order to fulfill the resumption conditions, FTI was appointed by the Company as the independent forensic specialist to conduct forensic investigations on the Audit issues raised by BTHK and the electronic records and data that were relevant to the investigation. The Audit Issues raised by BTHK include: (i) the reasonableness and rationale of the lump sum payment of RMB649 million paid by the Group to the existing and/or previous distributors in respect of the Group’s channel restructuring plan (“**CRP**”) for restructuring its existing distribution channels during 2014; (ii) the recognition of certain sales and corresponding trade receivables in 2014 and (iii) the value of certain provisions and guarantees.

Summary of Findings

(i) Expense for channel restructuring plan

On 30 June 2014, Shandong Taifeng Textile Co Ltd (山東泰豐紡織有限公司) (“**Shandong Taifeng**”), the wholly-owned subsidiary of the Company entered into the channel restructuring plan agreements (the “**First CRP Agreements**”) with (i) Tai An Dongfang Foreign Trading Company Limited (泰安東方外貿有限公司), (ii) Shanghai Nongken High Technology United Development Company Limited (上海農墾高科技聯合發展有限公司) (“**Shanghai Nongken**”), (iii) Shenzhen Xin Weishun Supply Chain Company Limited (深圳市新威順供應鏈有限公司) (“**Xin Weishun**”), (iv)

Shenzhen Zhong Hangzhou Technology Development Company Limited (深圳市中航洲科技發展有限公司) (“**Zhong Hangzhou**”) (collectively, the “**Four Distributors**”), (v) Shenzhen Zhong Xinye Industrial Development Company Limited (深圳中新業實業發展有限公司) (“**Zhong Xinye**”) and (vi) Shenzhen Shun Weibang Trading Company Limited (深圳市順威邦貿易有限公司) (“**Shun Weibang**”) (collectively, the “**Six Distributors**”) respectively aiming to reduce the inventory level of the Six Distributors and to encourage them to purchase goods from Shandong Taifeng.

On 1 July 2014, the First CRP Agreements were terminated and Shandong Taifeng entered into the second CRP agreements (the “**Second CRP Agreements**”) with the Four Distributors respectively.

During the investigation, FTI have reviewed the relevant agreements and documents in relation to the CRP and the payment of RMB649 million rebate made to the distributors; conduct interviews with management and the distributors; conduct searches on the distributors and conduct site visits to the stores operated by the distributors.

Use of the cash rebate by the six distributors

Upon the review of the available documents in relation to the payment of RMB649 million, FTI found that 1) RMB634 million was paid to the Six Distributors in 2014; 2) the balance of the amount of RMB15 million was waived pursuant to an agreement entered into between Xin Weishun and Shandong Taifeng dated 12 August 2015; and 3) Shandong Taifeng entered into the Second CRP Agreements with the Four Distributors, except Shun Weibang and Zhong Xinye. However, Shandong Taifeng paid RMB110 million and RMB123 million to Shun Weibang and Zhong Xinye respectively in 2014.

According to the Group, the cash rebate of RMB634 million was paid to the Six Distributors for 1) subsidising loss suffered as a result of discount offered to end customers and (2) opening new stores, renovation of the existing stores and launching marketing activities. Based on the Group’s inspection report, for the period from the third quarter of 2014 to the third quarter of 2015, the Four Distributors appeared to meet the targeted sales as agreed under the Second CRP Agreements by third quarter of 2015. However, as the financial statements and books and records of the Four Distributors have not been provided, FTI is unable to verify the sales and inventory of the Four Distributors.

The written response from Shangdong Taifeng stating that it has conducted quarterly inspection to monitor the progress of 1) clearance of stock; 2) opening new stores and stores innovation and 3) marketing and promotional activities. The inspection reports included the details of new and renovation stores and the total inventory sold (in units) and, sales amount and balance of inventory (in units) as well as the brief description of marketing activities undertaken. Notwithstanding the above steps allegedly taken by Shangdong Taifeng to monitor the progress of the CRP, the inspection reports do not include the following details: 1) amount of cash rebate used by the Four Distributors and the balance of cash rebate as at the date of inspection; 2) the expenses incurred on the CRP, including opening new stores, renovation of the existing stores and launching marketing activities and; 3) the subsidies provided in relation to the discount offered. In light of the above, FTI is of the view that Shangdong Taifeng did not have specific control procedures to control and monitor the use of the cash rebate by the Four Distributors.

The Deputy General Manager of Shangdong Taifeng and distributors advised that the businesses of Shun Weibang and Zhong Xinye with respect to the bedding products of Shandong Taifeng were transferred to Xin Weishun and Zhong Hangzhou respectively on 10 April 2013 and 20 April 2013. Further, during the interviews, the management of Xin Weishun and Zhong Hangzhou advised that Shun Weibang and Zhong Xinye were owned by them respectively. In this regard, Shandong Taifeng paid the cash rebate to Shun Weibang and Zhong Xinye. FTI has conducted AIC searches of the distributors in order to verify the information as advised by the deputy general manager of Shandong Taifeng and the distributors. The results of the AIC searches do not show these companies have common shareholders. As the explanations provided by the deputy general manager of Shandong Taifeng and the distributors regarding the shareholding relationships of the above companies contradicted the results of the AIC searches, the payments made to Shun Weibang and Zhong Xinye would appear to be questionable.

The Board had prepared a summary of projection of gross profits and cash flow between 2015 and 2019 (the “**Forecast**”) to consider the break-even point to justify the approval of the CRP Agreements. From the FTI’s review of the Forecast, it appears that the Board only considered a 50% recovery of the cash rebate in their break-even analysis prior to issuing the approval of the CRP. If the full value of the rebate was considered, based on the Forecast, the break-even point would not have been achieved by the end of 2019.

Despite the steps allegedly taken by Shandong Taifeng to monitor the operations of the stores after the execution of the CRP, it would appear that Shandong Taifeng had no control over the use of the cash rebate by the Six Distributors. Apart from that, the financial statements and books and records of the Four Distributors have not been provided for FTI's review. In this regard, FTI is unable to verify the details of the sales and inventory of the Four Distributors. Further, there are insufficient supporting documents available to verify the alleged losses suffered by the Six Distributors, which formed part of the subsidies provided to the Six Distributors.

(ii) *Recognition of certain sales and corresponding trade receivables*

As disclosed in the Company's announcement dated 19 July 2015, the total revenue generated by the Group for the year ended 31 December 2014 was RMB1,261 million (net of VAT), including sales of bedding products of RMB534 million and sales of cotton yarn of RMB727 million. The Group's total revenue for the year ended 31 December 2014 also represented the total revenue of Shandong Taifeng during the year.

Based on the 2014 general ledgers of Shandong Taifeng, FTI found that the total sales to the Four Distributors were RMB512 million, representing 96% of the total sales of bedding products. Further, regarding the sales of cotton yarn, the sales to the largest customer named Taifeng Textile Group Co Ltd ("TTG") was RMB380 million, which accounted for 52% of the total sales of cotton yarn.

During the investigation, FTI have reviewed the accounting records of the Group regarding the revenue generated in 2014; reviewed relevant documents and ascertaining whether the Group has lodged filings with the local tax authority and paid the VAT in relation to the non-VAT Revenue; arranged confirmation with PRC Tax Bureau regarding the VAT paid by the Group and reviewed the documents regarding the subsequent settlement of the trade receivables of RMB1,062,708,000 as at 31 December 2014; and conducted searches on the major debtors.

Sale recognition

In order to verify the sales transactions with Four Distributors and TTG, FTI has reviewed the samples of sales contracts, production orders, delivery notes and sales invoices. Based on the sample documents, the Group did not issue the VAT invoices to the Four Distributors and TTG, of which the findings are consistent with the comments made by BTHK. FTI is of the view that it is unclear whether the reported sales to TTG and the Four Distributors have been properly recognized for the financial year ended 31 December 2014.

VAT

FTI were provided by Shandong Taifeng with copies of the VAT declaration forms and cheque stubs in relation to the payments of the VAT for 2014. FTI found that the amount of total sales of RMB1,265 million as shown on the VAT declaration forms is greater than the total reported sales of Shandong Taifeng of RMB1,261 million by RMB4 million. Apart from this discrepancy, FTI have reservation with respect to the reliability of the VAT declaration forms and the payment records of VAT as (i) two sets of the VAT declaration forms were provided for FTI's review in November 2015 and January 2016 respectively. The copies provided in January 2016 were stamped with the chop of 萊蕪市國家稅務局高新區分局 while those provided in November 2015 were not; (ii) no copies of cheques regarding the alleged payments of the VAT were available for FTI's review. Only cheque stubs were provided; (iii) no VAT payment certificate obtained from the on-line tax system was provided; (iv) no payment receipts regarding the VAT issued by the relevant banks was provided; and (v) notwithstanding that the amounts as shown on the cheque stubs were recorded on the available bank statements, the details of the payees cannot be confirmed from the bank statements.

Subsequently, FTI were provided by Shandong Taifeng with a letter from 萊蕪市國家稅務局高新區分局 dated 20 January 2016 which stated, among other things, the details of VAT declared and paid by Shandong Taifeng. However, based on FTI's experience, the letter would not appear to be an official confirmation from Tax Bureau in the PRC.

Due to the aforementioned findings, FTI requested Shandong Taifeng to provide the official payment records including VAT payment certificate obtained from the on-line tax system and payment receipts regarding the VAT issued by the relevant banks. However, Shandong Taifeng did not provide any official payment records for FTI's review.

Trade receivables

The trade receivables due from the Four Distributors was RMB635 million as at 31 December 2014, which were fully settled within a year after the payment of the cash rebate to the Four Distributors by the Company. Coincidentally the cash rebate of RMB634 million was about the same amount as the trade receivables. There remains a possibility that the Four Distributors applied the cash rebate to settle the amounts owed to Shandong Taifeng. Besides, certain supporting documents provided regarding the settlement of the accounts receivable due from the Company's distributors were insufficient to show that the payments were eventually paid to Shandong Taifeng.

Shandong Taifeng had an unusually high volume of fund flow transactions with Laiwu Jingshuo Trading Company Limited (萊蕪市經碩貿易有限公司) ("**Laiwu Jingshuo**"), one of its customers between 2013 and 2014. There are insufficient supporting documents to confirm the nature of the payments made to Laiwu Jingshuo between 2013 and 2014. Investigations also found that trade facility application submitted by Shandong Taifeng to Bank of China in December 2013 and the relevant loan drawdown documents showed that the total amount of sales contracts with Laiwu Jingshuo was RMB416 million. This is inconsistent with reported sales to Laiwu Jingshuo of only RMB1.57 million and RMB1.54 million in 2013 and 2014 respectively.

Site visit to the distributors and stores

The addresses of the Four Distributors obtained from the searches are either different from the addresses provided by the Company or different to the venues FTI conducted the respective interviews. It was mentioned in the draft forensic report that Shanghai Nongken, one of the distributors of Shandong Taifeng refused to meet with FTI. In order to ascertain the status of its operations, FTI conducted site visit to its office premises based on the addresses obtained.

FTI was unable to locate the office of Shanghai Nongken based on the address obtained from the AIC search. Further, FTI attended the address of Shanghai Nongken provided by the Group. However, FTI was unable to locate the address.

Between 15 December 2015 and 23 December 2015, FTI has visited 11 stores in Shandong with the deputy general manager of Shangdong Taifeng and other staff members of Shandong Taifeng. Among the 11 stores visited, the locations of four stores are different from those provided by the Company. The managers of the four stores advised that the information provided by the Company was not updated and they moved to other locations subsequently.

Notwithstanding that the copies of some supporting documents regarding the expenses incurred by the distributors under the CRP such as rental agreements, receipts of renovation expenses and advertising expenses was provided by the store manager, FTI is of the view that the rationale for making payments of the cash rebate and how the distributors used the funds remain unclear because the amounts of the expenses as shown in the supporting documents are relatively immaterial; and supporting documents such as historical and/or current sales invoices to end customers provided to verify the alleged discount offered to the end customers were incomplete.

Site visit to TTG

As mentioned in the FTI report, the AIC search shows that the registered office of TTG is situated at 萊蕪市高新區匯源大街66號. On 3 December 2015, FTI conducted site visit to this address but the office of TTG cannot be located. Shandong Taifeng explained that the registered office of TTG has not been updated and the abovementioned address was occupied by the electricity plant of TTG, which was demolished by the local government.

In light of the above, it is unclear whether TTG's production capacity and business operations had been affected. In such circumstances, the recoverability of the trade receivables due from TTG and the recognition of the sales associated with Shandong Taifeng from 2014 onwards appear to be uncertain.

(iii) Guarantee Contracts and Provision for Compensation

During the investigation, FTI have also reviewed the relevant documents in relation to ascertaining the basis for making the provision for compensation; the existing internal control procedures of the Company and the relevant subsidiaries in relation to the granting of guarantees to third parties; and available documents and identifying other guarantees provided by the Company or the relevant subsidiaries.

As mentioned in the FTI report, the Company did not provide bank confirmations and Corporate Credit Report to FTI for its review. In addition, The Group did not disclose the details of a lending transaction with TTG. Despite the management only granting the forensic technology investigators access to a limited number of computers and email accounts of the Company, the non-disclosure findings are troubling.

Regarding the internal control policies of the Group, FTI is of the view that Shandong Taifeng do not specifically mention the requirements in relation to guarantees provided in favour of parties related to the directors of Shandong Taifeng or the Group.

Regarding the provision for Compensation, except for the provision for compensation of RMB198.52 million recognised by the Group as mentioned in the Company's announcement dated 19 July 2015, no further provisions were made by the Group in respect of other liabilities. FTI's investigations show at least RMB3 million, for which Shandong Taifeng was ordered by the relevant PRC Courts to be liable for.

Note: Four guarantees entered into between Laishang Bank, Shandong Taifeng and Shandong Bailun between July 2013 and May 2014 under which Shandong Taifeng provided guarantees in favour of Laishang Bank in respect of loans of RMB177.8 million granted to Shandong Bailun.

UPDATES ON RECENT DEVELOPMENTS OF SUSPENSION OF TRADING

The Company has noted the findings from the FTI Report and has discussed with EPRA about the findings and proposed remedial measures on financial reporting procedures and internal control systems. EPRA will submit the Internal Control Review Report to the Company on findings identified and recommendations on remedial measures by 15 December 2016. The Company will adopt the remedial measures to address the deficiencies in the Company's internal control policies and procedures as identified by FTI.

Furthermore, the Company will take all necessary steps to fulfill all of the resumption conditions, and will make further announcement of any material development on the above matters as and when appropriate.

CONTINUED SUSPENSION OF TRADING OF THE SHARES

Trading in the Shares on the Stock Exchange remain suspended until further notice.

The Company will keep the Shareholders and public informed of any material development in connection with the above matters by way of periodic announcements and/or further announcement(s) as and when appropriate.

By Order of the Board
China Taifeng Beddings Holdings Limited
Liu Qingping
Chairman

Shandong, the PRC, 22 November 2016

As at the date of this announcement, the Board comprises of three executive Directors, namely, Mr. LIU Qingping, 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.