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Boshiwa

BOSHIWA INTERNATIONAL HOLDING LIMITED

博士蛙國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1698)

**UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING
AND
OPERATIONS AND FINANCIAL CONDITIONS OF THE GROUP**

This announcement is made by Boshiwa International Holdings Limited (the “**Company**”) pursuant to Part XIVA of the Securities and Futures Ordinance and Rule 13.09(2)(a) of the Listing Rules.

References are made to the announcements of the Company dated 15 March, 23 May, 7 November, 8 November, and 7 December 2012, 7 January, 8 February, 15 March, 28 March, 26 April, 15 May, 31 May, 19 June, 30 August, 13 November and 31 December 2013, and 14 March, 31 March, 15 April, 16 June, 31 July and 29 August 2014 in relation to, amongst other things, resignation of auditor, delay in publication of annual results and dispatch of annual report for the year ended 31 December 2011, appointment of auditor, conditions for resumption of trading, delay in publication of annual results and dispatch of annual report for the year ended 31 December 2012, change in auditors, updates on recent development of suspension of trading, delay in publication of interim results and dispatch of interim report for the six months ended 30 June 2013, and delay in publication of annual results and dispatch of annual report for the year ended 31 December 2013, delay in publication of interim results and dispatch of interim report for the six months ended 30 June 2014 (the “**Announcements**”). Unless otherwise defined, capitalized terms shall have the same meanings as those defined in the Announcements.

As disclosed in the Announcements, the Newly Appointed Auditor (Crowe Horwath (HK) CPA Limited) of the Company is still performing the audit work for the Company’s financial results and reports for the three years ended 31 December 2011, 2012 and 2013. To enable the shareholders (the “**Shareholders**”) of the Company to appraise of the operations and financial positions of the Group, the Board is pleased to disclose certain unaudited financial information (the “**Unaudited Financial Information**”) of the Group for the three years ended 31 December 2011, 2012 and 2013 (the “**Relevant Financial Years**”) prepared in accordance with the International Financial and Reporting Standards.

Shareholders and potential investors of the Company should note that the Unaudited Financial Information contained in this announcement is merely the preliminary assessment made by the Board based on the Group's unaudited management accounts for the Relevant Financial Years, which has not been audited or reviewed by the Newly Appointed Auditor. The Unaudited Financial Information may be subject to audit adjustments.

UNAUDITED CONSOLIDATED BALANCE SHEET

	31 December 2013 <i>RMB</i>	31 December 2012 <i>RMB</i>	31 December 2011 <i>RMB</i>
Assets			
Non-current assets			
Property, plant and equipment	250,122,843	389,698,678	343,345,035
Available-for-sale properties	71,766,328	2,920,760	3,058,356
Prepaid land payments	978,257	6,082,973	6,151,656
Prepayments for acquisition of computer software	-	15,217,040	15,217,040
Prepayments for acquisition of property, plant and equipment	43,380,563	103,751,236	142,733,143
Deferred tax assets	24,849,367	45,796,639	29,381,055
Intangible assets	18,003,441	18,511,481	15,937,234
Other non-current assets	21,553,697	25,015,640	20,585,212
	<u>430,654,496</u>	<u>606,994,447</u>	<u>576,408,731</u>
Current assets			
Inventories	362,541,960	498,714,258	342,616,890
Trade and other receivables	738,821,653	927,287,604	1,045,839,254
Cash and cash equivalents	30,888,281	31,744,889	1,331,307,695
	<u>1,132,251,894</u>	<u>1,457,746,751</u>	<u>2,719,763,839</u>
Liabilities and owners' equity			
Current liabilities			
Short-term loans	138,850,000	100,000,000	400,000,000
Trade and other payables	324,575,747	308,579,065	344,210,582
Tax payables	-	-	47,311,719
	<u>463,425,747</u>	<u>408,579,065</u>	<u>791,522,301</u>
Total current liabilities	<u>463,425,747</u>	<u>408,579,065</u>	<u>791,522,301</u>
Net current asset	<u>668,826,147</u>	<u>1,049,167,686</u>	<u>1,928,241,538</u>
Total assets less current liabilities	<u>1,099,480,643</u>	<u>1,656,162,133</u>	<u>2,504,650,269</u>
Non-current liabilities			
Deferred tax liabilities	-	170,000	170,000
Net assets	<u>1,099,480,643</u>	<u>1,655,992,133</u>	<u>2,504,480,269</u>

	31 December 2013 RMB	31 December 2012 RMB	31 December 2011 RMB
Owners' equity			
Share capital	903,857	903,857	903,857
Share premium	2,357,072,000	2,357,072,000	2,357,072,000
Capital reserve	331,325,804	331,325,804	331,325,804
Statutory reserve	46,076,552	46,076,552	46,076,552
Accumulated losses	(1,633,919,007)	(1,078,619,591)	(230,897,944)
Controlling interests	1,101,459,206	1,656,758,622	2,504,480,269
Non-controlling interests	(1,978,563)	(766,489)	-
Total owners' equity	<u>1,099,480,643</u>	<u>1,655,992,133</u>	<u>2,504,480,269</u>

UNAUDITED CONSOLIDATED INCOME STATEMENT

	For the years ended 31 December		
	2013 RMB	2012 RMB	2011 RMB
Revenue	442,875,554	849,771,318	1,813,923,196
Cost of sales	(316,116,194)	(608,189,499)	(1,073,923,587)
Gross profit	126,759,360	241,581,819	739,999,609
Other revenue/(loss)	3,266,023	42,193,519	(47,118,579)
Distribution and selling expenses	(378,045,430)	(427,907,885)	(421,940,110)
Administrative and general expenses	(80,541,547)	(153,952,253)	(97,193,199)
Finance costs	(8,605,309)	(6,509,304)	(8,896,987)
Impairment loss of assets	(93,578,749)	(502,944,251)	(452,786,319)
Other operating expenses	(114,457,326)	(49,526,597)	(18,993,960)
Loss before tax	(545,202,978)	(857,064,952)	(306,929,545)
Income tax credit/(expenses)	(11,308,512)	8,076,816	(42,650,485)
Net loss	<u>(556,511,490)</u>	<u>(848,988,136)</u>	<u>(349,580,030)</u>
Loss attributable to controlling Shareholders	(555,299,416)	(847,721,647)	(349,580,030)
Loss attributable to non-controlling Shareholders	(1,212,074)	(1,266,489)	-
	<u>(556,511,490)</u>	<u>(848,988,136)</u>	<u>(349,580,030)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

As a focus of the development plan in 2011, the Group was committed to expanding its development advantages in the area of China's children consumable goods by using the funds raised through the listing and on the basis of past business development. The Group wished to continuously promote and expand its direct retail outlets layout in department stores, commercial streets and shopping malls nationwide. The Group began to develop the retail network of authorized third-party distributors by region, and continuously expand its scale of both wholesale business and online sales business in the baby and maternity necessities market. In order to further integrate the children industry chain, Shanghai Rongchen Boshiwa (Group) Co., Ltd., a subsidiary of the Company, signed an agreement with its partner on 29 September 2011 to commence the project of a new logistic center. In January 2012, the Group launched a project of establishing a maternal and child care club targeted at high-end customers to provide such services as prenatal care for pregnant women, postpartum baby care and postpartum rehabilitation.

The Group originally expected to achieve new business growth in 2012 on the basis of business development of 2011. However, given that the retail industry in China, especially the apparel industry, continued its weak trend since 2012, the Group's failure in achieving the expected expansion of its retail stores and the desired sales targets as well as the overstock of products of its various brands. Along with the expansion of the Group's sales network, the huge management system led to a substantial increase in sales expenses and administrative expenses. In March 2012, Deloitte Touche Tohmatsu resigned as the auditor of the Group, and the Group suspended the trading in the shares of the Company ("Shares") on the Stock Exchange on 15 March 2012. For this reason, the management devoted a lot of time and efforts in resolving the questions raised by the Special Investigation Committee, the financial adviser and the auditor for the resignation of Deloitte, and made great efforts in promoting the resumption of trading in Shares. All of above constituted an adverse impact on the Group's business and operations.

SALES CHANNELS

As of 31 December 2011, there were an increase of 179 newly-opened retail stores compared to 31 December 2010, among which the growth rate of Boshiwa 365 stores (flagship stores) amounts to 47%. In 2012 and 2013, authorized third-party distributors had less confidence on the business development of the Group due to the above-mentioned reasons and some of them even ceased business relationship with the Group. Therefore, the Group gradually terminated some business of the authorized brands and closed down some retail stores of these authorized brands. Affected by the weak condition of retail market development in China, the Group also gradually closed some direct-operating retail stores with poor performance. As of 31 December 2011, 2012 and 2013, the changes of retail stores, such as department store concessions, street shops and Boshiwa 365 stores (flagship stores) of the Group (including self-supporting retail stores and authorized third-party distributors retail stores) are as below:

Sales Channels	2010	2011	2012	2013
Department store concessions	1,477	1,628	1,328	729
Street shops	29	34	42	31
Boshiwa 365 stores (flagship stores)	49	72	67	53
Total	<u>1,555</u>	<u>1,734</u>	<u>1,437</u>	<u>813</u>

FINANCIAL REVIEW

Revenue

As of the years ended 31 December 2011, 2012 and 2013, the Group recorded revenue of approximately RMB1,814 million, RMB850 million and RMB443 million, respectively.

Cost of Sales and Gross Profit

For the year ended 31 December 2011, the cost of sales of the Group was approximately RMB1,074 million with the gross profit of approximately RMB740 million and gross profit margin of 40.8%; for the year ended 31 December 2012, the cost of sales was approximately RMB608 million, with gross profit of approximately RMB242 million and the gross profit margin of 28.4%; for the year ended 31 December 2013, the cost of sales was approximately RMB316 million, with gross profit of approximately RMB127 million and gross profit margin of 28.6%.

The gross profit margin for the years ended 31 December 2012 and 2013 decreased as compared to year ended 31 December 2011. The reasons were as follows: firstly, traditional offline retail stores market experienced a big shock as the retail market in the PRC, especially clothing market, remained sluggish since 2012 and e-commerce developed rapidly, which led to the inventory level of the Group remained high; secondly, the labour cost of the Group increased significantly as such cost in Chinese market continued to increase; thirdly, the rent and property cost of our stores, such as Boshiwa 365 stores, remained high and difficult to adjust; fourthly, affected by all kinds of factors, the number of authorized third-party distributors of the Group demonstrated a decreasing trend.

Inventory

Taking into account the provision for inventory and the set off in inventory consolidation, the actual net value of inventory of the Group amounted to approximately RMB343 million, RMB499 million and RMB363 million as of 31 December 2011, 2012 and 2013, respectively.

In October and December 2013, the Group made two clearance sales activities of the overstock products. In respect of clearance sales, respective provisions were made for the actual costs of the goods for 2011, 2012 and 2013 in accordance with the relevant accounting principles. Moreover, the Group has also made provisions for the expired brand licenses and general inventories, in accordance with the accounting principles. Accordingly, the provisions set out below were made by the Group for the inventories as of 31 December 2011, 2012 and 2013 respectively:

Unit: RMB'000

Items	2011	2012	2013
Total	<u>429,392</u>	<u>487,234</u>	<u>28,282</u>

Fixed Assets

The fixed assets of the Group mainly comprise of properties, land, stores and facilities. As of 31 December 2011, 2012 and 2013, the carrying values of the fixed assets of the Group was approximately RMB353 million, RMB399 million and RMB323 million, respectively.

The properties of the Group mainly include:

1. the whole block located at No. 78 Taigu Road, China (Shanghai) Pilot Free Trade Zone, Pudong New Area, Shanghai, the PRC;
2. a parcel of land and 2 buildings located at No. 550 Sanmen Road, Yangpu District, Shanghai, the PRC;
3. the two buildings comprising the south tower of Xiyuan Building, located at No. 8 Qiushi Road, Xihu District, Hangzhou, Zhejiang Province, the PRC; and
4. a parcel land of a site area of 56,556 square meters located at Qiu 105/1, No.8 Jiefang, Zhuhang Town, Jinshan District, Shanghai, the PRC (中國上海市金山區朱行鎮8街坊105/1丘).

The carrying values of the assets above were recorded as the costs by which such properties were acquired. There has been significant change in the valuation of such properties to date.

Since 2010, the Group has opened a large numbers of retail stores across China, and has invested hugely in store decoration, props and the related facilities. In light of the foregoing reasons, the Group have to reconstruct its stores, including closing down some stores. The Group therefore has written off fixed assets of a net value of approximately RMB47.98 million. For the years ended 31 December 2011, 2012 and 2013, the Group's fixed assets written off were approximately RMB5.99 million, RMB8.92 million and RMB32.98 million, respectively.

Distribution and Selling Expenses

As of 31 December 2011, 2012 and 2013, the total distribution and selling expenses of the Group were approximately RMB422 million, RMB428 million and RMB378 million, respectively. The major items of distribution and selling expenses are as follows:

Unit: RMB'000

Items	2011	2012	2013
Rental and property expenses	92,171	119,040	124,825
Advertising costs	45,209	5,702	1,781
Concession fees	71,114	31,534	34,487
Staff salaries	<u>51,298</u>	<u>79,161</u>	<u>64,858</u>

Note: As the Shanghai OGY Maternity Care Clubhouse(上海歐紀源興國月子會所) commenced its trial operation in 2013, the expenses such as the rental and property expenses were recorded in the selling expenses for 2013.

Administrative Expenses

As of 31 December 2011, 2012 and 2013, the administrative expenses of the Group were approximately RMB97.19 million, RMB153.95 million and RMB80.54 million, respectively. The major items of administrative expenses are as follows:

Unit: RMB'000

Items	2011	2012	2013
Rental and property expenses	28	25,721	1,770
Advertising costs	35	672	1,021
Staff salaries	<u>32,761</u>	<u>39,890</u>	<u>26,228</u>

Note: The rental and property expenses for 2012 amounted to RMB25.72 million, which included the rental and property expenses of approximately RMB22.0 million incurred by Shanghai OGY Maternity Care Clubhouse(上海歐紀源興國月子會所) during its decoration and preparation stage.

Finance Costs

For the years ended 31 December 2011, 2012 and 2013, the interests on borrowings of the Group were approximately RMB8.9 million, RMB6.51 million and RMB8.61 million, respectively.

Income Tax Expense

As of 31 December 2011, 2012 and 2013, the actual tax paid by the Group was approximately RMB97 million, nil and nil, respectively.

Litigation Risks

There were litigation or arbitration proceedings in relation to payables arising from the business cooperation or transactions among the Group with brand licensors, goods suppliers, store decoration suppliers, the property owners and others, including but not limited to the arbitration with NBA Hong Kong Operations Limited and NBA Sports and Culture Development (Beijing) Co., Ltd with the Company, Pacific Leader International Holdings Limited and Shanghai Boshiwa, the arbitration between NBA Sporting Goods Commercial and Trading (Shanghai) Co., Limited and Shanghai Boshiwa, the litigation among HIT Entertainment Limited and Gullane (Thomas) Limited with Pacific Leader International Holdings Limited, the litigation among PPW SPORTS&ENTERTAINMENT (HONK KONG) LIMITED with Pacific Leader International Holdings Limited and the Company, and the litigation between Shanghai Guohao Qiye Construction Company Limited (上海國豪乾越建設工程有限公司) and Shanghai OGY Maternity Care Services Company Limited (上海歐紀源興國母嬰護理服務有限公司), a subsidiary of the Group. As of 30 September 2014, payables attributable to litigation or arbitration amounted to approximately RMB113 million, and except for the amount stated under the payables, the Group has made appropriate provisions for such payables in the unaudited financial statements for the relevant years.

Allowance for Doubtful Debts

As of 31 December 2011, 2012 and 2013, the respective allowance for doubtful debts of approximately RMB9.19 million, RMB31.84 million and RMB97.13 million was made taking into account the aging of the receivables in accordance with the financial policies of provisions.

Prospects and Strategies

Given the implementation of the “selective two-child policy” and the development benefits brought by the China (Shanghai) Pilot Free Trade Zone, and based on its existing retail stores and online sales, the management of the Group seeks to vigorously develop its distribution business, and expand its department store concessions, street shops, Boshiwa 365 stores to the third and forth tier cities through its authorized third-party distributors. In addition, the Group will close down some less effective stores and will improve the operation efficiency of retail stores by strengthening its management. Besides, by leveraging on the China (Shanghai) Pilot Free Trade Zone, the Group will also develop the cross-border e-commerce business for the maternal and child’s products. The Group is committed to rewarding our shareholder with excellent results.

AUDIT COMMITTEE

Following the resignations of Dr. Jiang Chang Jian and Mr. Li Zhi Qiang as the independent non-executive directors and the members of the audit committee of the Company, the audit committee comprises only one independent non-executive director Mr. Chong Cha Hwa as the chairman and member thereof. Therefore, summary of the preliminary unaudited financial information of the Group for the Three Financial Years has not been reviewed by the audit committee.

SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange will remain suspended until further notice.

By Order of the Board
Boshiwa International Holding Limited
Zhong Zheng Yong
Chairman

Shanghai, 17 October 2014

As at the date of this announcement, the executive Directors are Mr. Zhong Zheng Yong, Ms. Chen Li Ping, and Mr. Chen Pei Qi and the independent non-executive Director is Mr. Chong Cha Hwa.