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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018, together with the comparative figures for 2017 and the relevant explanatory notes as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	4	**164,480**	125,501
Cost of sales		**(125,029)**	(96,994)
GROSS PROFIT		**39,451**	28,507
Other net income and gains	4	**2,549**	1,691
Selling and distribution expenses		**(10,013)**	(8,949)
General and administrative expenses		**(54,982)**	(39,807)
Amortisation of intangible assets	10	**(77,640)**	(128,261)
Impairment loss on intangible assets	10	**(195,120)**	(537,286)
Impairment loss on non-current assets held for sale	12	**–**	(23,244)
Finance costs	5	**(5,862)**	(6,050)
Fair value (loss)/gain on convertible notes at fair value through profit or loss	15	**(17,797)**	50,002
Gain on derecognition of warrants at fair value through profit or loss	15	**–**	5,067
Fair value gain on provision for contingent consideration at fair value through profit or loss	16	**43,533**	219,888
LOSS BEFORE TAX	6	**(275,881)**	(438,442)
Income tax credit	7	**553**	3,072
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(275,328)**	(435,370)
LOSS PER SHARE	9		
– Basic (RMB)		**(0.25)**	(0.40)
– Diluted (RMB)		**(0.25)**	(0.40)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**51,415**	41,416
Prepaid land lease payments		**26,223**	26,954
Intangible assets	*10*	**364,246**	636,981
		441,884	705,351
CURRENT ASSETS			
Inventories		**40,556**	36,227
Trade and bills receivables	*11*	**33,659**	29,806
Prepayments, deposits and other receivables		**7,480**	10,321
Pledged deposits		**–**	2,127
Cash and bank balances		**21,080**	5,888
		102,775	84,369
Assets classified as held for sale	*12*	**26,000**	26,000
		128,775	110,369
CURRENT LIABILITIES			
Trade and bills payables	*13*	**46,806**	48,001
Deposits received, other payables and accruals		**81,808**	39,925
Short term borrowings	*14*	**123,100**	117,000
Convertible notes	*15*	**–**	87,002
Income tax payable		**200**	2,216
		251,914	294,144
NET CURRENT LIABILITIES		**(123,139)**	(183,775)
TOTAL ASSETS LESS CURRENT LIABILITIES		**318,745**	521,576
NON-CURRENT LIABILITIES			
Convertible notes	*15*	**–**	57,820
Provision for contingent consideration	*16*	**2,312**	47,272
Deferred tax liability		**2,491**	3,071
		4,803	108,163
NET ASSETS		**313,942**	413,413
CAPITAL AND RESERVES			
Share capital		**86,758**	71,629
Reserves		**227,184**	341,784
TOTAL CAPITAL AND RESERVES		**313,942**	413,413

NOTES:

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal places of business are located in Huoju Industrial Zone, Jiangnan Town, Licheng District, Quanzhou City, Fujian Province, the People's Republic of China ("PRC") and Room 504, 5/F, OfficePlus @Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011.

The principal activity of the Company is investment holding. The Group is engaged in the manufacture and sale of slippers, sandals, casual footwear, graphene-based ethylene-vinyl acetate ("EVA") foam material ("Graphene-based EVA Foam Material") and slippers ("Graphene-based Slippers"), and graphene deodorizing and sterilizing chips for air purifiers and air conditioners ("Sterilizing Chips").

In the opinion of the Directors, the immediate holding company and the ultimate holding company of the Company is Best Mark International Limited, which was incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Sze Ching Bor.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB123,139,000. The Group incurred a loss for the year of approximately RMB275,328,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the Directors have given careful consideration to future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will be able to finance its future working capital and finance requirements. Certain measures have been taken to manage its liquidity needs and to improve its financial position which include, but are not limited to, the following:

2. **BASIS OF PREPARATION** *(continued)*

1. The Group will negotiate with the PRC banks for the renewal of the Group's PRC bank borrowings when they fall due to secure necessary facilities to meet the Group's working capital and financial requirements in the near future. The Directors have evaluated all the relevant facts available to them and are of the opinion that the Group has a good track record or relationship with the banks which will enhance the Group's ability to renew the Group's PRC bank borrowings upon expiry; and

2. The Group will implement operational plans to control costs and generate adequate cash flows from the Group's operations.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than fifteen months from the date of the consolidated statement of financial position. The Directors are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next fifteen months from the date of the consolidated statement of financial position. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

The Group has applied new and revised IFRSs, which include IFRS(s), IASs and Interpretation, issued by the IASB for the first time in the current year.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC* 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the contents of the consolidated financial statements.

2. BASIS OF PREPARATION *(continued)*

IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. However, there is no significant impact on the Group's accounting with respect to the timing of revenue recognition and allocation of the transaction price to performance obligations identified. Accordingly, opening balance of accumulated losses at 1 January 2018 is not adjusted in respect to the adoption of IFRS 15.

IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Summary of effects arising from initial application of IFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been affected by IFRS 9.

2. BASIS OF PREPARATION *(continued)*

IFRS 9 Financial Instruments *(continued)*

Summary of effects arising from initial application of IFRS 9 *(continued)*

	At 31 December 2017 *RMB'000*	Impact on initial application of IFRS 9 *RMB'000*	At 1 January 2018 *RMB'000*
Trade and bills receivables	29,806	(1,967)	27,839
Reserves	341,784	(1,967)	339,817

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables, bills receivables, and financial assets included in prepayments, deposits and other receivables. Except for those which had been determined as credit impaired under IAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for pledge deposits, and cash and bank balance are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

All loss allowances including trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables *RMB'000*
At 31 December 2017	
– IAS 39	2,689
Amounts re-measured through opening accumulated losses	1,967
At 1 January 2018	4,656

3. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods or services delivered or provided. Specifically, the Group's reportable and operating segments are as follows:

(a) the Boree branded products segment manufactures and sells Boree branded slippers, sandals and casual footwear ("Boree Products");

(b) the Graphene-based products segment applied the technology know-how by applying graphene in the production of Graphene-based EVA Foam Material, Graphene-based Slippers and Sterilizing Chips (collectively referred to as "Graphene-based Products"); and

(c) the Original Equipment Manufacturer ("OEM") segment produces slippers for branding and resale by others.

CODM monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment result, which is a measure of adjusted result before tax.

The segment profit or loss represents the profit earned by or loss from each segment without allocation of interest income, other unallocated net income and gains, amortisation of intangible assets, impairment loss on intangible assets and non-current assets held for sale, fair value change on convertible notes and provision for contingent consideration at fair value through profit or loss ("FVTPL"), gains on derecognition of warrants at FVTPL, finance costs as well as corporate and other unallocated expenses.

Segment assets exclude property, plant and equipment, prepaid land lease payments, intangible assets, raw materials, work in progress, prepayments, deposits and other receivables, pledged deposits, cash and bank balances and assets classified as held for sale as these assets are managed on a group basis.

Segment liabilities exclude trade and bills payables, certain other payables and accruals, short term borrowings, convertible notes, income tax payable, deferred tax liability and provision for contingent consideration as these liabilities are managed on a group basis.

3. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Boree Products RMB'000	Graphene-based Products RMB'000	OEM RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	**3,463**	**4,510**	**156,507**	**164,480**
Segment results	**(550)**	**537**	**29,451**	**29,438**
Reconciliation:				
Interest income				**61**
Other unallocated net income and gains				**2,488**
Corporate and other unallocated expenses				**(54,982)**
Amortisation of intangible assets				**(77,640)**
Impairment loss on intangible assets				**(195,120)**
Fair value loss on convertible notes at FVTPL				**(17,797)**
Fair value gain on provision for contingent consideration at FVTPL				**43,533**
Finance costs				**(5,862)**
Loss before tax				**(275,881)**
Segment assets	**1,580**	**461**	**55,716**	**57,757**
Reconciliation:				
Corporate and other unallocated assets				**486,902**
Assets classified as held for sale				**26,000**
Total assets				**570,659**
Segment liabilities	**300**	**–**	**–**	**300**
Reconciliation:				
Corporate and other unallocated liabilities				**256,417**
Total liabilities				**256,717**

3. **SEGMENT INFORMATION** *(continued)*

Year ended 31 December 2017

	Boree Products *RMB'000*	Graphene-based Products *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	3,517	2,130	119,854	125,501
Segment results	(1,431)	(14)	21,003	19,558
Reconciliation:				
Interest income				83
Other unallocated net income and gains				1,608
Corporate and other unallocated expenses				(39,807)
Amortisation of intangible assets				(128,261)
Impairment loss on intangible assets				(537,286)
Impairment loss on non-current assets held for sale				(23,244)
Fair value gain on convertible notes at FVTPL				50,002
Gain on derecognition of warrants at FVTPL				5,067
Fair value gain on provision for contingent consideration at FVTPL				219,888
Finance costs				(6,050)
Loss before tax				(438,442)
Segment assets	1,885	4,457	33,574	39,916
Reconciliation:				
Corporate and other unallocated assets				749,804
Assets classified as held for sale				26,000
Total assets				815,720
Segment liabilities	300	–	–	300
Reconciliation:				
Corporate and other unallocated liabilities				402,007
Total liabilities				402,307

3. SEGMENT INFORMATION *(continued)*

Geographical information

(a) ***Revenue from external customers***

	2018	2017
	RMB'000	*RMB'000*
PRC (principal place of operations)	**10,449**	5,664
United States of America ("US")	**147,314**	109,394
South America	**590**	551
Europe	**1,730**	2,058
South East Asia	**1,128**	2,353
Other countries	**3,269**	5,481
	164,480	125,501

The revenue information above is based on the locations of the customers.

(b) ***Non-current assets***

	2018	2017
	RMB'000	*RMB'000*
PRC (principal place of operations)	**441,881**	705,345

The non-current assets information above is based on the locations of the assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**94,663**	75,643
Customer B*	**19,034**	4,370
Customer C*	**16,446**	2,038

* Revenue from Customers B and C contributed less than 10% of the total sales of the Group for the year ended 31 December 2017.

The Group's major customers are in the OEM segment.

4. REVENUE, OTHER NET INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other net income and gains is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**164,480**	125,501
Other net income and gains		
Interest income	**61**	83
Sales of scrap materials	**591**	300
Sales of semi-products	**115**	54
Sales of gas emission quota	**–**	412
Rental income	**315**	382
Subsidy income*	**1,446**	450
Others	**21**	10
	2,549	1,691

* *There are no unfulfilled conditions or contingencies relating to these subsidies.*

5. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on loans	**5,862**	6,050

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting) the following items:

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold*	**125,575**	96,896
Depreciation*	**6,001**	6,467
Amortisation of prepaid land lease payments	**731**	845
Amortisation of intangible assets	**77,640**	128,261
Minimum lease payments under operating leases in respect of land and buildings*	**1,863**	867
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**52,391**	42,578
Equity-settled share based payments	**15,206**	5,411
Staff welfares	**1,210**	934
Contributions to retirement benefits schemes	**2,305**	3,126
	71,112	52,049
Auditors' remuneration:		
Audit service	**1,332**	920
Non-audit service	**–**	251
	1,332	1,171
Impairment loss on intangible assets	**195,120**	537,286
Impairment loss on non-current assets held for sale	**–**	23,244
Impairment loss/(reversal of impairment loss) on trade receivables	**3,718**	(737)
(Reversal of write-down)/write-down of inventories	**(546)**	98
Loss on disposals of items of property, plant and equipment	**167**	162
Exchange loss, net	**579**	877
Research and development costs**	**8,233**	6,358

* *The cost of inventories sold for the year ended 31 December 2018 includes approximately RMB35,819,000 (2017: RMB28,677,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

** *The research and development costs are included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

7. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been provided as the Group's tax losses brought forward from prior years exceeded the assessable profits arising in Hong Kong for the year (2017: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	2018	2017
	RMB'000	*RMB'000*
Current – PRC Enterprise Income Tax		
Charge for the year	**700**	2,209
Under/(over)-provisions in prior years	**21**	(5,281)
Deferred tax	**(1,274)**	–
Total tax credit for the year	**(553)**	(3,072)

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2018 and 2017 and since the end of the reporting period.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the year attributable to owners of the Company of approximately RMB275,328,000 (2017: RMB435,370,000) and the weighted average number of ordinary shares of 1,095,511,663 (2017: 1,084,059,608) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2018 included the 1,084,059,608 ordinary shares in issue as at 1 January 2018, and 220,000,000 ordinary shares issued on 13 December 2018 in respect of conversion of convertible notes.

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2017 included the 1,084,059,608 ordinary shares in issue as at 1 January 2017 and 31 December 2017.

During the years ended 31 December 2018 and 2017, diluted loss per share does not assume the exercise of the Company's share options and/or convertible notes as the exercise of the Company's share options and/or convertible notes would result in a decrease in loss per share, and is regarded as anti-dilutive.

10. INTANGIBLE ASSETS

	Technology Know-how *(Notes a,c)* *RMB'000*	O2O distribution vending system *(Notes b,c)* *RMB'000*	Deferred development costs *(Note d)* *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2017	1,587,518	60,000	92,378	1,739,896
Addition	–	–	150	150
At 31 December 2017 and 1 January 2018	1,587,518	60,000	92,528	1,740,046
Addition	–	–	25	25
At 31 December 2018	1,587,518	60,000	92,553	1,740,071
Accumulated amortisation and impairment:				
At 1 January 2017	437,518	–	–	437,518
Provided for the year	123,214	4,954	93	128,261
Impairment loss for the year	477,786	–	59,500	537,286
At 31 December 2017 and 1 January 2018	1,038,518	4,954	59,593	1,103,065
Provided for the year	65,880	6,606	5,154	77,640
Impairment loss for the year	195,120	–	–	195,120
At 31 December 2018	1,299,518	11,560	64,747	1,375,825
Net carrying amount:				
At 31 December 2018	288,000	48,440	27,806	364,246
At 31 December 2017	549,000	55,046	32,935	636,981

Notes:

(a) It represented certain technological know-how in respect of the application of graphene and includes one patent in the US ("US Patent"), four invention patent applications, three utility model patent applications and two utility model patents in the PRC (collectively as "PRC Patents"), relating to the manufacturing of Graphene-based EVA Foam Material, Sterilizing Chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively "Technology Know-how"), which was acquired from Bluestone Technologies (Cayman) Limited ("Bluestone"), an independent third party, in 2015.

10. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(a) *(continued)*

The completion date of the transaction ("Completion Date") was 16 December 2015. The cost of the Technology Know-how was determined by the Directors and represented the sum of the cash consideration, the fair value of the convertible notes (note 15) and provision for contingent consideration at the acquisition date (note 16), and the capitalised transaction costs arising directly from the acquisition of the Technology Know-how. The Group's first graphene application products mass production line was completed and commenced trial production in late May 2016, and mass production has already been commenced in July 2016.

The Technology Know-how has definite useful lives and is amortised over 10 years using the straight-line method.

(b) In July 2016, the Group acquired the design of Online-to-Offline ("O2O") distribution vending system at the consideration of RMB60,000,000 from two independent third parties. Directors consider that the O2O distribution vending system would provide customers with an interactive and unique shopping experience, enhance the distribution channel of the products made by the Group and establish the core technical competitiveness of the Group.

The O2O distribution vending system has definite useful lives and is amortised over 9 years using the straight-line method.

(c) The Directors consider that O2O distribution vending system is a contributory asset necessary to support the earnings associated with the Technology Know-how (collectively "O2O Unit"), being the smallest identifiable group of assets that generates earnings that are largely independent of the earnings from other assets.

The Directors conducted an impairment assessment on the Technology Know-how and considered that provision for impairment to the carrying amount of the Technology Know-how of RMB195,120,000 (2017: RMB477,786,000) was made as at 31 December 2018, with reference to a valuation of the value-in-use of the Technology Know-how conducted by an independent professional valuer, Ascent Partners Valuation Service Limited ("Ascent Partners"), using multi-period excess earnings method (2017: multi-period excess earnings method). The multi-period excess earnings method is based on a discount rate of approximately 24.66% and financial forecasts approved by the Directors. Assumption of budgeted sales was based on estimated daily average sales of slippers from O2O distribution vending system and expected growth rate. Other key assumptions for the multi-period excess earnings method relate to the estimation of earnings which include estimated gross profit margin, operating expenses and working capital requirements, such estimation is based on the expected and forecasted performance generated from the past performance of the O2O Unit and management's expectations for the market development.

10. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(d) In July 2016, the Group engaged several independent third parties in the research and development of manufacturing and application technology of graphene material on Sterilizing Chips, energy storage materials for batteries and pressure sensitive lighting devices for shoes ("Other Deferred Development Costs"). The Directors seek the opportunities in applying the graphene material in products other than shoes and plan to launch in future.

The Directors conducted an impairment assessment and considered that there was no impairment to the carrying amount of the Sterilizing Chips as at 31 December 2018, with reference to a valuation of the value-in-use of the Sterilizing Chips conducted by an independent professional valuer, Peak Vision Appraisals Limited, using discounted cash flow approach (2017: discounted cash flow approach). The discounted cash flow approach is based on a post-tax discount rate of approximately 20.26% and cash flow projections prepared from financial forecasts approved by the Directors. Key assumptions for the discounted cash flow approach relate to the estimation of cash inflows/outflows from the development projects which include estimated gross profit margin, operating expenses and working capital requirements, such estimation is based on the expected and forecasted performance generated from the use of the Sterilizing Chips and management's expectations for the market development.

The Sterilizing Chips has definite useful lives and is amortised over 5 years using the straight-line method.

The Directors conducted an impairment assessment on Other Deferred Development Costs and considered that the future economic benefits attributable to Other Deferred Development Costs is uncertain and provision for impairment of RMB59,500,000 was made as at 31 December 2017.

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period offered to its customers is generally for a period of three months. The Group seeks to apply strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the Group's trade and bills receivables, net of allowance for doubtful debts as at the end of the reporting period, based on the invoice dates, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**32,877**	19,703
4 to 6 months	**739**	786
7 to 12 months	**43**	6,405
Over 1 year	**–**	2,912
	33,659	29,806

12. ASSETS CLASSIFIED AS HELD FOR SALE

On 10 October 2017, the Group entered into a sales and purchase agreement with an independent third party at a consideration of RMB26,000,000 to dispose of certain property, plant and equipment with land use right located in PRC. In accordance with IFRS 5, the disposal assets were reclassified as assets held for sale. During the year ended 31 December 2018, the transfer of legal title of the disposal asset is in progress. In the opinion of the Directors, the disposal will be completed in 2019.

The major classes of assets classified as held for sale as at 31 December 2017 and 2018 are as follows:

	RMB'000
Buildings and leasehold improvements	**44,318**
Prepaid land lease payments	**4,926**
Impairment loss for 2017	**(23,244)**
	26,000

The Group has pledged the land use right with a net carrying amount of approximately RMB4,926,000 to secure general banking facilities granted to the Group as at 31 December 2017. The pledge of the land use right was released in 2018.

13. TRADE AND BILLS PAYABLES

An aging analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice dates, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**31,300**	29,396
Over 3 months	**15,506**	18,605
	46,806	48,001

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2017: six months). Bills payable of RMB7,090,000 were secured by the Group's pledged deposits amounting to RMB2,127,000 as at 31 December 2017. The Group has no bills payable as at 31 December 2018.

14. SHORT TERM BORROWINGS

		2018	2017
		RMB'000	*RMB'000*
Secured bank loans repayable within one year	(b)	**106,000**	117,000
Unsecured loans repayable within one year		**17,100**	–
		123,100	117,000

(a) At 31 December 2018 and 2017, the loans were denominated in Renminbi (2017: Renminbi) and bore interest rates ranging from:

Year ended 31 December 2018	4.35% – 5.22% per annum
Year ended 31 December 2017	4.35% – 5.00% per annum

(b) At 31 December 2018, the secured bank loans of the Group were secured by a pledge of certain of the Group's buildings and land use rights, with carrying amounts of approximately RMB9,150,000 (2017: RMB12,415,000) and approximately RMB26,954,000 (2017: RMB32,611,000) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party, a Director and his son.

15. CONVERTIBLE NOTES AND WARRANTS

Valuation of the Convertible Notes and the Warrants

The movements of the Convertible Notes and the Warrants were as follows:

	2015 Convertible Notes *(Note a)* *RMB'000*	**2016 Convertible Notes** *(Note a)* *RMB'000*	**2012 Warrants** *(Note b)* *RMB'000*	**Total** *RMB'000*
Fair value at 1 January 2017	116,894	77,930	5,067	199,891
Derecognition during the year	–	–	(5,067)	(5,067)
Fair value gain credited to profit or loss during the year	(29,892)	(20,110)	–	(50,002)
Fair value at 31 December 2017 and 1 January 2018	87,002	57,820	–	144,822
Fair value loss charged to profit or loss during the year	10,570	7,227	–	17,797
Conversion of convertible notes during the year	(97,572)	(65,047)	–	(162,619)
Fair value at 31 December 2018	–	–	–	–
Represented by:				
2018				
Current portion	–	–	–	–
Non-current portion	–	–	–	–
	–	–	–	–
2017				
Current portion	87,002	–	–	87,002
Non-current portion	–	57,820	–	57,820
	87,002	57,820	–	144,822

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Valuation of the Convertible Notes and the Warrants *(continued)*

Notes:

(a) In connection with the acquisition of the Technology Know-how as explained in note 10, the Company issued zero-coupon unsecured convertible notes (the "2015 Convertible Notes") with principal amount of HK$110,880,000 as part of the initial consideration on 16 December 2015. As a settlement of part of contingent consideration, the Company also issued zero-coupon unsecured convertible notes (the "2016 Convertible Notes") with principal amount of HK$73,920,000 on 2 February 2016.

The 2015 Convertible Notes and 2016 Convertible Notes (collectively the "Convertible Notes") entitle the holder to convert them into ordinary shares of the Company (the "Shares") at any time from the date of issue of the 2015 Convertible Notes and 2016 Convertible Notes to the date immediately prior to the maturity date on 16 December 2018 and 2 February 2019 respectively, being the third anniversary of the date of issue, in multiples of HK$1,000,000 at a conversion price of HK$0.84 per conversion share subject to adjustments in certain events. The shares to be allotted and issued upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. Also, the Company has a right to redeem the Convertible Notes at any time before the maturity date of the Convertible Notes.

The Convertible Notes included a debt instrument with embedded derivatives. Upon initial recognition, the Convertible Notes are designated as financial liabilities at FVTPL since it contains embedded foreign exchange derivatives. The fair values of the Convertible Notes are remeasured at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

During the year ended 31 December 2018, the Group received a total of two conversion notices from Bluestone in respect of the exercise of the conversion rights attached to the Convertible Notes in the aggregate principal amount of HK$184,800,000 at the conversion price of HK$0.84 per conversion share. As a result of this conversion, the Company allotted and issued a total of 220,000,000 Shares to Bluestone in December 2018 with additional share capital and share premium of approximately HK$17,193,000 (equivalent to approximately RMB15,129,000) and approximately HK$167,607,000 (equivalent to approximately RMB147,489,000) respectively. No Convertible Notes remain outstanding at 31 December 2018.

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Valuation of the Convertible Notes and the Warrants *(continued)*

Notes: (continued)

(a) *(continued)*

Valuation

As at 31 December 2017, the fair values of the Convertible Notes were based on the valuations performed by Ascent Partners and calculated using the binomial model and the inputs into the model were as follows:

2015 Convertible Notes	
Stock closing price (HK$)	0.52
Principal amount (HK$'000)	110,880
Coupon rate (%)	0
Conversion price (HK$)	0.84
Volatility (%)	84.94
Risk-free rate (% per annum)	1.04
Expected life (years)	0.96
Expected dividend yield (%)	0

2016 Convertible Notes	
Stock closing price (HK$)	0.52
Principal amount (HK$'000)	73,920
Coupon rate (%)	0
Conversion price (HK$)	0.84
Volatility (%)	79.09
Risk-free rate (% per annum)	1.07
Expected life (years)	1.09
Expected dividend yield (%)	0

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Valuation of the Convertible Notes and the Warrants *(continued)*

Notes: (continued)

(b) Pursuant to a subscription agreement entered into with Asia Equity Value Ltd (the "Subscriber") on 8 June 2012 (the "Subscription Agreement"), the Company issued a 7% senior guaranteed convertible notes with a principal amount of HK$176,000,000 (i.e. RMB143,470,000) (the "2012 Convertible Notes") to the Subscriber on 21 June 2012 (the "Issuance Date"). No 2012 Convertible Notes remained outstanding as at 31 December 2015. In addition, pursuant to the Subscription Agreement, the Company also issued to the Subscriber warrants (the "2012 Warrants") which carry the rights to subscribe for 62,026,431 new Shares as a condition to the issuance of the 2012 Convertible Notes.

The 2012 Warrants initially give the holder of the 2012 Warrants (the "Warrants Holder") the rights to subscribe for 62,026,431 new Shares. The initial subscription price of the 2012 Warrants is HK$1.53 per share (the "Subscription Price"), subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the 2012 Warrants.

On 7 February 2013, the Company entered into a supplemental instrument with the Subscriber to amend certain major terms and conditions of the 2012 Warrants (the "Supplemental Warrants Instrument"). The Supplemental Warrants Instrument had been approved by the Subscriber as the sole holder of the 2012 Warrants in accordance with the terms and conditions of the 2012 Warrants. In accordance with the Supplemental Warrants Instrument, the Company and the Subscriber agreed that any adjustments to the Subscription Price should take effect if the adjustment is HK$0.01 or more. The Subscription Price had been adjusted from HK$1.53 to HK$1.49 with effect from 12 October 2012 as a result of the distribution of the 2012 interim dividend of HK2.5 cents per ordinary share by the Company.

According to the agreement amongst the Subscriber and three independent third parties (the "Transferees") on 29 October 2014, the 2012 Warrants were transferred from the Subscriber to the Transferees on 29 October 2014.

The subscription period of the 2012 Warrants commences from 6 months after the Issuance Date (i.e. 22 December 2012) (the "Warrants Subscription Date"), and expired on the fifth anniversary from the Warrants Subscription Date (i.e. 22 December 2017).

No warrants have been exercised during the year ended 31 December 2017.

The 2012 Warrants are classified as derivatives and are accounted for as financial liabilities at FVTPL upon initial recognition since it contains embedded foreign exchange derivatives. The fair value of the 2012 Warrants is remeasured at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

16. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of the Technology Know-how as explained in note 10, provision for contingent consideration as at 31 December 2015 represented the acquisition-date fair value of contingent consideration of i) a maximum of approximately RMB1,289,409,836 in cash ("Cash Consideration"); and ii) the contingent convertible notes ("Contingent CNs") with principal amount of HK$73,920,000 (equivalent to approximately RMB60,590,164), which will be issued by the Company after fulfilment of certain conditions specified in the acquisition agreement signed on 14 October 2015 ("Acquisition Agreement"), as part of the consideration for the acquisition of the Technology Know-how.

The settlement of Cash Consideration and the Contingent CNs is subject to the following conditions:

"Second Instalment Conditions" refer to (a) the registration of the transfer of the PRC Patents and the US Patent having been completed in the State Intellectual Property Office of the PRC and the United States Patent and Trademark Office respectively, such that the Company having become the applicant of the PRC Patents (or if the PRC Patents are granted, the Company having become the PRC Patents owner) under the record of the State Intellectual Property Office of the PRC, and the Company having become the US Patent owner under the record of the United States Patent and Trademark Office; and (b) the training provided by Bluestone to the technicians of the Group and its contracted parties having been completed, such that the Group and its contracted parties having been able to produce graphene-based EVA foam material and graphene deodorizing and sterilizing chips based on the Technology Know-how independently, and the graphene-based EVA foam material and graphene deodorizing and sterilizing chips produced having been certified by an independent technical organisation at provincial level or above to meet the inspection standard as stipulated under the Acquisition Agreement.

Upon fulfilment of the Second Instalment Conditions, the second instalment in the amount of RMB450,000,000 should be payable by the Company, of which (a) RMB389,409,836 should be paid in cash within 6 months after fulfilment of the Second Instalment Conditions; and (b) RMB60,590,164 should be satisfied by issuing the convertible notes with principal amount of HK$73,920,000 to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Second Instalment Conditions.

16. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

"Third Instalment Conditions" refer to (a) the accumulated turnover of a special purpose vehicle ("SPV") to be established by the Group for the sales of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based wearable devices manufactured using the Technology Know-how and/or any other companies (other than companies of the Group) authorised to use the Technology Know-how having reached RMB40,000,000; and (b) the sales volume of graphene-based EVA foam material having reached 20,000 cubic meters, each within 9 months after the Completion Date (or such later date as the Company may agree).

Upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the third instalment in the amount of RMB270,000,000 should be payable by the Company in cash to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Third Instalment Conditions.

Second Instalment Conditions and Third Instalment Conditions had been fulfilled and the Company had paid RMB389,409,836 by way of cash and RMB60,590,164 by way of issuing the 2016 Convertible Notes (refer to note 15) and RMB270,000,000 by way of cash on 2 February 2016 and 8 September 2016 respectively.

Pursuant to the Acquisition Agreement, upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, Bluestone is entitled to share 35% of the earnings before interests, taxes, depreciation and amortisation ("EBITDA") of the SPV for the 6-month period ended 30 June or 31 December of each year ("Interim Financial Period") starting from the year the Second Instalment Conditions and the Third Instalment Conditions are fulfilled and each subsequent Interim Financial Period (until the end of the sixth financial year ending 31 December from the Completion Date), subject to a maximum sharing amount of RMB630,000,000 (the "EBITDA Sharing Mechanism").

For the avoidance of doubt, the financial year in which the Completion Date ending on would be considered as the first financial year for the purpose of the EBITDA Sharing Mechanism. During the period under the EBITDA Sharing Mechanism, for each Interim Financial Period, the Company should appoint an independent auditor to issue a certificate for the EBITDA of the SPV during the relevant Interim Financial Period within 4 months from the end of such Interim Financial Period, and the sharing amount shall be paid by the Company in cash to Bluestone or its nominee(s) within 15 business days after the issuance of such certificate. Any license fees for the Technology Know-how payable by the SPV to the Group will be disregarded in the calculation of the EBITDA.

If the accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism is less than RMB1,800,000,000 (for the purpose, if the SPV records a loss in any Interim Financial Period, the EBITDA of the SPV of that Interim Financial Period would be regarded as zero in calculating the accumulated EBITDA), the total sharing amount under the EBITDA Sharing Mechanism will be less than RMB630,000,000 and the Company is not obligated to pay the shortfall between RMB630,000,000 and 35% of the actual accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism.

16. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

Provision for contingent consideration as at 31 December 2018 represented the contingent cash consideration payable to Bluestone or its nominee(s) under the EBITDA Sharing Mechanism.

The movements of the provision for contingent consideration were as follows:

	2018	2017
	RMB'000	*RMB'000*
As at the beginning of the year	**48,302**	276,868
Amount incurred during the year	**–**	(8,678)
Fair value gain credited to profit or loss during the year	**(43,533)**	(219,888)
As at the end of the year	**4,769**	48,302
Current portion included in deposits received, other payables and accruals	**(2,457)**	(1,030)
Non-current portion	**2,312**	47,272

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach (2017: discounted cash flow approach). The discount rate used in the approach as at 31 December 2018 were ranging from 12.54% to 12.72% (31 December 2017: 12.32% to 12.54%).

The provision for contingent consideration is classified as a financial liability which will then be measured at fair value and any changes in fair value will be recognised in the consolidated statement of profit or loss.

The Directors conducted a fair value assessment of the provision for contingent consideration as at 31 December 2018, with reference to a valuation conducted by Ascent Partners.

17. EVENT AFTER THE REPORTING PERIOD

Pursuant to the Company's announcements dated 9 November 2018, 12 November 2018 and 8 March 2019, two independent subscribers subscribed for a total of 182,800,000 new Shares at a price of HK$0.27 per Share which were completed on 8 March 2019 (the "Subscription"). The net proceeds from the Subscription (after deducting the relevant expenses incurred in the Subscription) were approximately HK$49,136,000 (equivalent to approximately RMB42,982,000). The net proceeds were intended to be used for the research and development of carbon application products and to provide additional general working capital for the Company. These new Shares rank pari passu with other shares in issue in all respects.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by Confucius International CPA Limited, the Company's auditor, on the consolidated financial statements of the Group for the year ended 31 December 2018:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty in relation to going concern

We draw attention to note 3 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB275,328,000 for the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB123,139,000. As explained in note 3 to the consolidated financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group recorded an increase in revenue of approximately RMB39.0 million or 31.1% to approximately RMB164.5 million (2017: RMB125.5 million), which was contributed by the increase in revenue of major operating segments and particularly the increase in revenue of the OEM business. The Group continued to focus on the development and improvement of do-it-yourself ("DIY") automated vending system, the key machine for the O2O business model, for the sales and distribution of own branded automated customized Graphene-based Slippers. Besides, due to (i) delay of placing orders by some overseas customers at the end of last year, some orders of the OEM business were delayed to the first half of 2018; (ii) orders from new customers; and (iii) increase in orders from existing customers, the sales of OEM business during the year increased.

The gross profit margin of the Group slightly increased to 24.0% in 2018 (2017: 22.7%), which was mainly attributable to the effective cost control during second half of the year.

During the year, the Group recorded a net loss of approximately RMB275.3 million (2017: RMB435.4 million), which was mainly attributable to (i) amortisation of intangible assets of approximately RMB77.6 million (2017: RMB128.3 million) and impairment loss on intangible assets of approximately RMB195.1 million (2017: RMB537.3 million); (ii) share-based payment expenses of approximately RMB15.2 million (2017: RMB5.4 million) in relation to the share options granted by the Company on 10 December 2015, 24 June 2016, 16 December 2016 and 19 June 2018; (iii) impairment loss on trade receivables of approximately RMB3.7 million (2017: reversal of impairment loss on trade receivables of RMB0.7 million); (iv) the fair value loss on convertible notes at FVTPL of approximately RMB17.8 million (2017: fair value gain on convertible notes at FVTPL of RMB50.0 million); and (v) the fair value gain on provision for contingent consideration at FVTPL of approximately RMB43.5 million (2017: RMB219.9 million).

FINANCIAL REVIEW

Revenue by Product Category

	2018	2017	Increase/ (decrease)
	RMB'000	*RMB'000*	*% change*
Revenue (Boree Products)	**3,463**	3,517	(1.5)%
Revenue (Graphene-based Products)	**4,510**	2,130	111.7%
Revenue (OEM Business)	**156,507**	119,854	30.6%
Revenue (Total)	**164,480**	125,501	31.1%

Boree Products

During the year, the performance of Group's Boree Products kept stable, maintaining similar sales level of RMB3.5 million as compared with last year (2017: RMB3.5 million).

Graphene-based Products

Revenue of Graphene-based Products amounted to approximately RMB4.5 million (2017: RMB2.1 million) during the year. The trial run of the third generation of the DIY automated vending system was completed during the year. In response to customers' needs and adapt to market changes, the Group continued to focus on the development and improvement of DIY automated vending system, the key machine for the O2O business model, for the sales and distribution of Graphene-based Slippers and the fourth generation of the DIY automated vending system was developed during the year. The upgraded fourth generation of the DIY automated vending system has the advantages of simple installation, small size, low power consumption and fast printing speed, which can reduce the distribution and operation costs. The Group expected that the fourth generation of the DIY automated vending system will be launched in the second quarter of 2019.

Moreover, the Group would continue to develop and launch different types of graphene application products. The development stage of the Sterilizing Chips had been completed and the Sterilizing Chips were launched in the PRC market in 2018.

FINANCIAL REVIEW *(continued)*

OEM Business

Revenue from OEM business increased by 30.6% to approximately RMB156.5 million during the year (2017: RMB119.9 million) was mainly attributable to (i) delay of placing orders by some overseas customers at the end of last year, some orders of the OEM business were delayed to the first half of 2018; (ii) orders from new customers due to effort of sales team; and (iii) increase in orders from existing customers due to on-time delivery, price competitiveness and good quality of product.

Selling and Distribution Expenses

During the year, selling and distribution expenses increased by 11.9% to approximately RMB10.0 million as compared with that of last year (2017: RMB8.9 million), which accounted for 6.1% (2017: 7.1%) of the Group's revenue. The increase was in line with the sales growth during the year.

General and Administrative Expenses

General and administrative expenses recorded an increase of approximately RMB15.2 million or 38.1% during the year as compared with that of last year, which was mainly attributable to the increase in share-based payment expenses of approximately RMB12.0 million in relation to the share options granted by the Company on 19 June 2018 and an increase of impairment loss on trade receivables of approximately RMB4.4 million during the year.

Liquidity and Financial Resources

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB9.3 million (2017: RMB28.3 million). As at 31 December 2018, cash and bank balances were approximately RMB21.1 million, representing an increase of 258.0% as compared with the cash and bank balances as at the end of last year (2017: RMB5.9 million). As at 31 December 2018, around 88.7% and 10.0% of the Group's cash and bank balances were denominated in Hong Kong dollars and Renminbi respectively. As at 31 December 2018, the short term borrowings of the Group were approximately RMB123.1 million (2017: RMB117.0 million). All loans were denominated in Renminbi, with fixed interest rates and repayable within one year.

FINANCIAL REVIEW *(continued)*

Capital Structure

As at 1 January 2018, there were 1,084,059,608 shares in issue and the paid-up capital amounted to approximately RMB71,629,000. During the year, the Company issued a total of 220,000,000 shares to the Convertible Notes holder who exercised the conversion rights attached to the Convertible Notes. As at 31 December 2018, the Company had 1,304,059,608 shares in issue and a paid-up capital of approximately RMB86,758,000.

Significant Investments, Material Acquisitions and Disposals

During the year, the Group did not have any other significant investments, material acquisitions and disposals.

Pledge of Assets

The Group did not have any bills payables as at 31 December 2018. As at 31 December 2017, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB2.1 million. As at 31 December 2018, the bank borrowings of the Group were secured by a pledge of the Group's certain buildings and land use rights with carrying amounts of approximately RMB9.2 million (2017: RMB12.4 million) and approximately RMB27.0 million (2017: RMB32.6 million) respectively.

Contingent Liabilities

As at 31 December 2018 and 2017, there were no material contingent liabilities.

Foreign Exchange Risk

During the year, the sales of the Group were mainly denominated in US dollars and Renminbi. The cost of sales and operating expenses were mainly denominated in Renminbi. Management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure if necessary.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group was 44.7% (2017: 49.0%). Gearing ratio was calculated as total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

FINANCIAL REVIEW *(continued)*

Human Resources

As at 31 December 2018, the Group had a total of approximately 780 employees (2017: 730 employees), with total staff costs for the year ended 31 December 2018, including directors' remuneration, amounted to approximately RMB71,112,000 (2017: RMB52,049,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 31 December 2018, the Company had utilised all net proceeds from the Initial Public Offering (''IPO'') in the amount of approximately RMB387.7 million. The Shares were listed on the main board of the Stock Exchange on 28 January 2011 with net proceeds received by the Company from the share offering of HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilisation of the net proceeds as at 31 December 2018 is set out as follows:

Nature	Amount raised *RMB'000*	Amount utilised *RMB'000*
To increase production capacity (approximately RMB45,026,000 was changed to "To settle the payment for the design and development of the O2O distribution vending system")	135,683	135,683
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business (approximately RMB58,150,000 was changed to "To settle the payment of the acquisition of the Technology Know-how")	58,150	58,150
To strengthen design capability	19,383	19,383
To establish flagship shops and showrooms (approximately RMB15,293,000 was changed to "To settle the payment of the acquisition of the Technology Know-how")	19,383	19,383
To strengthen the distribution resource planning system (approximately RMB14,974,000 was changed to "To settle the payment for the design and development of the O2O distribution vending system")	19,383	19,383
General working capital	38,767	38,767
Total:	387,666	387,666

Completion of Subscription of New Shares

The Subscription was completed on 8 March 2019 (Details refer to the Company's announcements dated 9 November 2018, 12 November 2018 and 8 March 2019). The net proceeds from the Subscription (after deducting the relevant expenses incurred in the Subscription) were approximately HK$49,136,000 (equivalent to approximately RMB42,982,000), which were intended to be used (i) as to approximately HK$40,316,000 (equivalent to approximately RMB35,257,000) for the research and development of carbon application products, including in particular, setting up a demonstration production line for carbon-based energy storage batteries; and (ii) as to approximately HK$8,820,000 (equivalent to approximately RMB7,725,000) for the general working capital of the Company. The Company has utilised approximately HK$616,000 (equivalent to approximately RMB540,000) for the general working capital of the Company as at 31 December 2018.

FUTURE PROSPECTS

During 2018, the Group continued to focus on the development and improvement of DIY automated vending system, the key machine for the O2O business model, for the sales and distribution of Graphene-based Slippers and the fourth generation of the DIY automated vending system was developed during the year. The upgraded fourth generation of the DIY automated vending system has the advantages of simple installation, small size, low power consumption and fast printing speed, which can reduce the distribution and operation costs. The Group expected that the fourth generation of the DIY automated vending system will be launched in the second quarter of 2019. Besides, in the coming year, by utilizing the resources of distributors, the Group targets to cooperate with young people's favorite brands or brands with numerous stores by placing DIY automated vending system in cooperative stores. In such a way, we can provide customers an interesting on-site customization DIY shopping experience to design their favorite slippers. This cross-over cooperation can reduce the selling cost, penetrate and expand the PRC market rapidly and most important of all, can foster the popularity of our brand. Besides, the Group developed graphene-based shoes for pregnant women in 2018 and now under discussion with hospitals for cooperation and targeted to launch to the market in the coming year.

Moreover, the Group would continue to develop and launch different types of graphene application products. The development stage of the Sterilizing Chips had been completed and the Sterilizing Chips were launched in the PRC market in the first half of 2018. According to the test reports issued by PRC government accredited testing centre, the Sterilizing Chips are proved to be highly effective on reducing formaldehyde, toluene, xylene, volatile organic compounds and escherichia coli phage. For the overseas market, the Group already sent samples to an overseas well-known producer of air conditioning system for testing and recognition. After all the tests are completed, the Sterilizing Chips would be launched in the overseas market through cooperation with this producer. For the PRC market, as the PRC government tightened the environmental protection and control and the public pays more attention to the environmental protection, the Directors believed that there would be a great demand for environmental protection products like air purifiers. Besides, the recognition from the above-mentioned overseas well-known producer of air conditioning system would be a strong evidence of the superior quality of our Sterilizing Chips, therefore the Directors believed that the revenue of Sterilizing Chips from PRC market would increase in the coming year.

After paying continuous effort and capital investment in the past few years, the Group gradually transformed from a traditional manufacturing company to a material technology company and started to diversify our business to environmental protection and energy related field. In light of the above and given the superior performance of the Group's carbon-based energy storage materials for batteries than the existing material for lithium batteries, the Group decided to deploy more resources on the research and development of carbon-based energy storage batteries in second half of 2018 and set up a battery research and development line in first half of 2019. In the future, the Group will focus on the large-scale application of material technology, and further industrialize the research and development results. Carbon-based energy storage materials for batteries are expected to be put into mass production in the coming year. After the scale expansion, the Group would be able to enter the energy storage industry by providing energy storage material, which would become the driving force of higher profit growth for the future.

CORPORATE GOVERNANCE

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value.

Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, save for the deviations as detailed below. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

Code Provision A.2.1 stipulates that the roles of the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company deviates from this provision because Mr. Zheng Jingdong has been performing both the roles of Chairman and Chief Executive Officer. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises 2 executive Directors, 1 non-executive Director and 3 independent non-executive Directors and therefore has a strong independence element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by the Directors. The Company made specific enquiries of all the Directors and each of them confirmed that they have complied with the required standards set out in the Model Code during the financial year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee was established by the Board with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and risk management and internal control systems and review and monitor appointment of the auditors and their independence. As at 31 December 2018, the audit committee comprised three independent non-executive Directors, namely Mr. Chen Shaohua, Professor Zhao Jinbao and Ms. An Na, and Mr. Chen Shaohua was the chairperson of the audit committee. The annual results of the Group for the year ended 31 December 2018 have been reviewed by the audit committee.

REVIEW OF THIS ANNUAL RESULTS ANNOUNCEMENT

This preliminary announcement has been compared by the Group's auditor, Confucius International CPA Limited ("Confucius"), Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Confucius in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor on this preliminary announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement is available for viewing on the website of the Stock Exchange and the website of the Company at http://www.baofengmodern.com. The annual report of the Company will be despatched to shareholders of the Company in due course.

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

Hong Kong, 27 March 2019

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 Professor Zhao Jinbao, Mr. Chen Shaohua and Ms. An Na.