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 2019

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 2019, together with the comparative figures for 2018 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 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	*4*	**169,687**	164,480
Cost of sales		**(139,568)**	(125,029)
GROSS PROFIT		**30,119**	39,451
Other net income and gains	*4*	**2,934**	2,549
Reversal of impairment loss/(impairment loss) on trade receivables from sales of goods		**521**	(3,718)
Selling and distribution expenses		**(11,101)**	(10,013)
General and administrative expenses		**(44,547)**	(51,264)
Amortisation of intangible assets	*11*	**(52,720)**	(77,640)
Impairment loss on intangible assets	*11*	**(234,295)**	(195,120)
Impairment loss on assets held for sale	*13*	**(3,000)**	–
Finance costs	*5*	**(6,072)**	(5,862)
Fair value loss on convertible notes at fair value through profit or loss	*16*	**–**	(17,797)
Fair value gain on provision for contingent consideration at fair value through profit or loss	*18*	**4,769**	43,533
LOSS BEFORE TAX	*6*	**(313,392)**	(275,881)
Income tax (expense)/credit	*7*	**(1,044)**	553
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(314,436)**	(275,328)
LOSS PER SHARE	*9*		
– Basic (RMB)		**(0.22)**	(0.25)
– Diluted (RMB)		**(0.22)**	(0.25)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**49,291**	51,415
Right-of-use assets	10	**27,351**	–
Prepaid land lease payments		**–**	26,223
Intangible assets	11	**77,255**	364,246
		153,897	441,884
CURRENT ASSETS			
Inventories		**29,367**	40,556
Trade receivables	12	**44,784**	33,659
Prepayments, deposits and other receivables		**38,394**	7,480
Pledged deposits		**3,855**	–
Cash and bank balances		**4,101**	21,080
		120,501	102,775
Assets classified as held for sale	13	**–**	26,000
		120,501	128,775
CURRENT LIABILITIES			
Trade and bills payables	14	**56,856**	46,806
Deposits received, other payables and accruals		**51,553**	81,808
Short term borrowings	15	**114,200**	123,100
Lease liabilities	17	**604**	–
Income tax payable		**100**	200
		223,313	251,914
NET CURRENT LIABILITIES		**(102,812)**	(123,139)
TOTAL ASSETS LESS CURRENT LIABILITIES		**51,085**	318,745
NON-CURRENT LIABILITIES			
Lease liabilities	17	**550**	–
Provision for contingent consideration	18	**–**	2,312
Deferred tax liability		**2,557**	2,491
		3,107	4,803
NET ASSETS		**47,978**	313,942
CAPITAL AND RESERVES			
Share capital		**99,310**	86,758
Reserves		**(51,332)**	227,184
TOTAL CAPITAL AND RESERVES		**47,978**	313,942

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 2019, the Group's current liabilities exceeded its current assets by approximately RMB102,812,000. The Group incurred a loss for the year of approximately RMB314,436,000. 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 secured bank loans amounting to RMB98,000,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreement. 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. In the opinion of the Directors, the Group will be able to roll over or refinance the bank borrowings upon maturity;

2. The Group has obtained a credit facility amounting to RMB21,500,000 in total from an independent third party. The credit facility had been utilised amounting to RMB16,200,000 as at 31 December 2019. Subsequent to the year ended date, the credit facility had been increased from RMB21,500,000 to RMB35,000,000. The facility would be utilised as the working capital and for financing the ongoing business of the Group;

3. The Group has obtained a loan facility from the independent third party in amount of RMB20,000,000 with a maturity date on 25 March 2022 secured by the Group's property. The facility would be utilised as the working capital and for financing the ongoing business of the Group; and

4. 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 2019 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 16	Leases
IFRIC*-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

2. BASIS OF PREPARATION *(continued)*

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

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

a) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

b) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

c) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC and Hong Kong was determined on a portfolio basis; and

2. BASIS OF PREPARATION *(continued)*

As a lessee *(continued)*

d) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.95%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	1,652
Lease liabilities discounted at relevant incremental borrowing rates	1,504
Less: Practical expedient – leases with lease term ending within 12 months from the date of initial application	(200)
Recognition exemption – short-term leases	(93)
Lease liabilities as at 1 January 2019	1,211
Analysed as	
Current	310
Non-current	901
	1,211

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		1,255
Reclassified from prepaid land lease payments	*(a)*	26,954
		28,209

2. BASIS OF PREPARATION *(continued)*

As a lessee *(continued)*

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid land lease payments amounting to RMB731,000 and RMB26,223,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid land lease payments	26,223	(26,223)	–
Right-of-use assets	–	28,209	28,209
Current Assets			
Prepayments, deposits and other receivables	7,480	(775)	6,705
Current Liability			
Lease liabilities	–	310	310
Non-current Liability			
Lease liabilities	–	901	901

2. BASIS OF PREPARATION *(continued)*

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

(i) Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(ii) Effective on 1 January 2019, the Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The Board concluded that the change in the initial application of IFRS 16 has had no material impact on the consolidated financial statements of the Group for the current year.

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 assets held for sale, fair value change on convertible notes and provision for contingent consideration at fair value through profit or loss ("FVTPL"), finance costs as well as corporate and other unallocated expenses.

Segment assets exclude property, plant and equipment, right-of-use assets, 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, lease liabilities, 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 2019

	Boree Products *RMB'000*	Graphene-based Products *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	**2,721**	**4,024**	**162,942**	**169,687**
Segment results	**(4,340)**	**2,422**	**20,936**	**19,018**
Reconciliation:				
Interest income				**85**
Other unallocated net income and gains				**2,849**
Reversal of impairment loss on trade receivables from sales of goods				**521**
Corporate and other unallocated expenses				**(44,547)**
Amortisation of intangible assets				**(52,720)**
Impairment loss on intangible assets				**(234,295)**
Impairment loss on assets held for sale				**(3,000)**
Fair value gain on provision for contingent consideration at FVTPL				**4,769**
Finance costs				**(6,072)**
Loss before tax				**(313,392)**
Segment assets	**1,647**	**3,778**	**53,407**	**58,832**
Reconciliation:				
Corporate and other unallocated assets				**215,566**
Total assets				**274,398**
Segment liabilities	**300**	**–**	**–**	**300**
Reconciliation:				
Corporate and other unallocated liabilities				**226,120**
Total liabilities				**226,420**

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
Impairment loss on trade receivables from sales of goods				(3,718)
Corporate and other unallocated expenses				(51,264)
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)*

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	*RMB'000*
PRC (principal place of operations)	**10,898**	10,449
United States of America ("US")	**152,168**	147,314
South America	**782**	590
Europe	**2,629**	1,730
South East Asia	**316**	1,128
Other countries	**2,894**	3,269
	169,687	164,480

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

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
PRC (principal place of operations)	**153,897**	441,881

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:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**80,164**	94,663
Customer B	**33,744**	19,034
Customer C	**27,169**	16,446

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**169,687**	164,480
Other net income and gains		
Interest income	**85**	61
Sales of scrap materials	**574**	591
Sales of semi-products	**–**	115
Rental income under operating leases	**467**	315
Subsidy income*	**1,532**	1,446
Exchange gain, net	**256**	–
Others	**20**	21
	2,934	2,549

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

5. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**5,890**	5,862
Interest on letter of credit	**111**	–
Interest on lease liabilities	**71**	–
	6,072	5,862

6. LOSS BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold*	**139,402**	125,575
Depreciation of property, plant and equipment*	**6,131**	6,001
Depreciation of right-of-use assets*	**1,315**	–
Amortisation of prepaid land lease payments	**–**	731
Amortisation of intangible assets	**52,720**	77,640
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**53,474**	52,391
Equity-settled share based payments	**5,299**	15,205
Staff welfares	**821**	1,210
Contributions to retirement benefits schemes	**3,357**	2,305
	62,951	71,111
Auditors' remuneration	**1,357**	1,332
Impairment loss on intangible assets	**234,295**	195,120
Impairment loss on assets held for sale	**3,000**	–
(Reversal of impairment loss)/impairment loss on trade receivables from sales of goods	**(521)**	3,718
Write-down/(reversal of write-down) of inventories	**166**	(546)
Loss on disposals of items of property, plant and equipment	**139**	167
Exchange (gain)/loss, net	**(256)**	579
Research and development costs**	**10,683**	8,233

* *The cost of inventories sold for the year ended 31 December 2019 includes approximately RMB34,441,000 (2018: RMB35,819,000) relating to direct staff costs, depreciation of manufacturing facilities and depreciation of right-of-use assets (2018: 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 (EXPENSE)/CREDIT

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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 (2018: 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.

	2019	2018
	RMB'000	*RMB'000*
Current – PRC Enterprise Income Tax		
Charge for the year	**600**	700
Under-provisions in prior years	**378**	21
Deferred tax	**66**	(1,274)
Total tax expense/(credit) for the year	**1,044**	(553)

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2019 and 2018 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 RMB314,436,000 (2018: RMB275,328,000) and the weighted average number of ordinary shares of 1,453,805,361 (2018: 1,095,511,663) 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 2019 included the 1,304,059,608 ordinary shares in issue as at 1 January 2019 and 182,800,000 ordinary shares issued on 8 March 2019 in respect of the completion of subscription of new shares.

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.

9. LOSS PER SHARE *(continued)*

During the years ended 31 December 2019 and 2018, diluted loss per share does not assume the exercise of the Company's share options as the exercise of the Company's share options would result in a decrease in loss per share, and is regarded as anti-dilutive.

10. RIGHT-OF-USE ASSETS

	Leasehold lands	**Leased properties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019			
Carrying amount	26,954	1,255	28,209
As at 31 December 2019			
Carrying amount	26,223	1,128	27,351
For the year ended 31 December 2019			
Depreciation charge	(731)	(584)	(1,315)
Addition	–	457	457
	(731)	(127)	(858)
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16			384
Total cash outflow for leases			1,014

11. 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 2018	1,587,518	60,000	92,528	1,740,046
Addition	–	–	25	25
At 31 December 2018 and 1 January 2019	1,587,518	60,000	92,553	1,740,071
Addition	–	–	24	24
At 31 December 2019	1,587,518	60,000	92,577	1,740,095
Accumulated amortisation and impairment:				
At 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 and 1 January 2019	1,299,518	11,560	64,747	1,375,825
Provided for the year	39,273	6,605	6,842	52,720
Impairment loss for the year	187,727	25,835	20,733	234,295
At 31 December 2019	1,526,518	44,000	92,322	1,662,840
Net carrying amount:				
At 31 December 2019	61,000	16,000	255	77,255
At 31 December 2018	288,000	48,440	27,806	364,246

11. INTANGIBLE ASSETS *(continued)*

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.

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 16) and provision for contingent consideration at the acquisition date (note 18), 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.

The Directors conducted an impairment assessment on the O2O distribution vending system and considered that provision for impairment to the carrying amount of the O2O distribution vending system of RMB25,835,000 (2018: Nil) should be made as at 31 December 2019, with reference to a valuation of the fair value of the O2O distribution vending system conducted by an independent professional valuer, Ascent Partners Valuation Service Limited ("Ascent Partners"), using relief from royalty method.

The relief from royalty method measures value by estimating budgeted sales associated with the intangible asset (i.e. O2O distribution vending system) over its useful life and then applying an appropriate royalty rate to the revenue estimate. It measures the costs that are avoided (the royalty payments that are not made) due to the firm's ownership of the intangible asset. The royalty rate of approximately 10.00% was used and the present value of the estimated royalty payments is calculated using discount rate of approximately 20.90%. Assumption of budgeted sales was based on estimated daily average sales of slippers from O2O distribution vending system and expected growth rate of product mix.

11. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(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 RMB187,727,000 (2018: RMB195,120,000) should be made as at 31 December 2019, with reference to a valuation of the fair value of the Technology Know-how conducted by an independent professional valuer, Ascent Partners, using multi-period excess earnings method (2018: multi-period excess earnings method). The multi-period excess earnings method is based on a discount rate of approximately 22.90% (2018: 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 of product mix. 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.

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

The Directors conducted an impairment assessment on the Sterilizing Chips and considered that the future economic benefits attributable to the Sterilizing Chips is premature and provision for impairment of RMB20,733,000 (2018: Nil) should be made as at 31 December 2019.

As at 31 December 2019, the carrying amount represented the patents for research and development of manufacturing and application technology of graphene material on certain products.

12. TRADE 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.

	2019	2018
	RMB'000	*RMB'000*
Contracts with customers	**52,770**	42,033
Less: Allowance for credit losses	**(7,986)**	(8,374)
Total trade receivables	**44,784**	33,659

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB31,224,000.

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**43,077**	32,877
4 to 6 months	**1,707**	739
7 to 12 months	**–**	43
	44,784	33,659

13. ASSETS CLASSIFIED AS HELD FOR SALE

On 10 October 2017, the Group entered into a sales and purchase agreement with an independent third party (the "Buyer") at a consideration of RMB26,000,000 to dispose 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 in 2017. During the year ended 31 December 2018, the transfer of legal title of the disposal asset was in progress and deposit amounting to RMB16,500,000 had been received. On 16 September 2019, the Group entered into a supplementary agreement to the sales and purchase agreement with the Buyer and agreed to reduce the consideration by RMB3,000,000. The management consider that the transaction had been completed in December 2019. The management consider that the remaining balance would be received in the second quarter of 2020.

13. ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

The major classes of assets classified as held for sale are as follows:

	RMB'000
Buildings and leasehold improvements	**44,318**
Prepaid land lease payments	**4,926**
Impairment loss for 2017	**(23,244)**
As at 1 January 2018, 31 December 2018 and 1 January 2019	**26,000**
Impairment loss during the year	**(3,000)**
Transfer to other receivables	**(23,000)**
As at 31 December 2019	**–**

14. 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:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**41,913**	31,300
Over 3 months	**14,943**	15,506
	56,856	46,806

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2018: six months). Bills payable of RMB12,850,000 (2018: Nil) were secured by the Group's pledged deposits amounting to RMB3,855,000 as at 31 December 2019 (2018: Nil).

15. SHORT TERM BORROWINGS

		2019	2018
		RMB'000	*RMB'000*
Secured bank loans repayable within one year	(b)	**98,000**	106,000
Unsecured loans repayable within one year		**16,200**	17,100
		114,200	123,100

15. SHORT TERM BORROWINGS *(continued)*

(a) At 31 December 2019 and 2018, the loans were denominated in Renminbi and bore interest rates ranging from:

Year ended 31 December 2019	4.35% – 5.22% per annum
Year ended 31 December 2018	4.35% – 5.22% per annum

(b) At 31 December 2019, the secured bank loans of the Group were secured by a pledge of certain of the Group's leased properties and leasehold lands (2018: buildings and land use rights), with carrying amounts of approximately RMB6,096,000 (2018: RMB9,150,000) and approximately RMB26,223,000 (2018: RMB26,954,000) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party and a Director in 2019 (2018: an independent third party, a Director and his son).

16. CONVERTIBLE NOTES

Valuation of the Convertible Notes

The movements of the Convertible Notes were as follows:

	2015 Convertible Notes *(Note a)* *RMB'000*	**2016 Convertible Notes** *(Note a)* *RMB'000*	**Total** *RMB'000*
Fair value at 1 January 2018	87,002	57,820	144,822
Fair value loss charged to profit or loss during 2018	10,570	7,227	17,797
Conversion of convertible notes during 2018	(97,572)	(65,047)	(162,619)
Fair value at 31 December 2018, 1 January 2019 and 31 December 2019	–	–	–
Represented by:			
2018 and 2019			
Current portion	–	–	–
Non-current portion	–	–	–
	–	–	–

16. CONVERTIBLE NOTES *(continued)*

Valuation of the Convertible Notes *(continued)*

Note:

(a) In connection with the acquisition of the Technology Know-how as explained in note 11, 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 (the "Maturity Dates") 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 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 Dates 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.

17. LEASE LIABILITIES

	31 December 2019 *RMB'000*
Lease liabilities payable:	
Within one year	604
Within a period of more than one year but not more than two years	207
Within a period of more than two years but not more than five years	343
	1,154
Less: Amount due for settlement within 12 months shown under current liabilities	(604)
Amount due for settlement after 12 months shown under non-current liabilities	550

18. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of the Technology Know-how as explained in note 11, 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.

18. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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.

"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 16) 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.

18. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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.

Provision for contingent consideration as at 31 December 2019 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:

	2019	2018
	RMB'000	*RMB'000*
As at the beginning of the year	**4,769**	48,302
Fair value gain credited to profit or loss during the year	**(4,769)**	(43,533)
As at the end of the year	**–**	4,769
Current portion included in deposits received, other payables and accruals	**–**	(2,457)
Non-current portion	**–**	2,312

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach (2018: discounted cash flow approach). The discount rate used in the approach as at 31 December 2019 were ranging from 14.84% to 14.86% (31 December 2018: 12.54% to 12.72%).

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 2019, with reference to a valuation conducted by Ascent Partners.

19. EVENTS AFTER REPORTING PERIOD

Due to the outbreak of the novel coronavirus ("COVID-19") epidemic in the PRC in January 2020, the Group's operational and financial performance are expected to be affected by the epidemic in the first half of 2020.

Though the Group's factories in Fujian Province have resumed work since 10 February 2020, the Group expects that the COVID-19 epidemic will result in late delivery of some products. On the other hand, due to the continuous outbreak of the COVID-19 epidemic in the US since March 2020, the Group's major OEM customers in the US requested to postpone the delivery time of some orders and the specific delivery time is still uncertain. The Group has been closely monitoring the impact of the developments on the Group's businesses and keeps close contact with customers to strive for solutions.

The Group will keep continuous attention on the situation of the COVID-19 epidemic, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of issue of the consolidated financial statements, the assessment is still in progress.

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 2019:

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 2019 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 RMB314,436,000 for the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB102,812,000. 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

Under the negative impact of the trade dispute between the PRC and the US, due to the effort of sales team, the Group still recorded an increase in revenue of approximately RMB5.2 million or 3.2% to approximately RMB169.7 million (2018: RMB164.5 million) during the year.

As some customers of the OEM business changed to place orders to manufacturers in Southeast Asia and India instead to the Group during the year, the Group is forced to reduce its gross profit margin to retain existing customers and acquire new orders. Therefore, the gross profit margin of the Group during the year was reduced to approximately 17.7% (2018: 24.0%).

During the year, the Group recorded a net loss of approximately RMB314.4 million (2018: RMB275.3 million), which was mainly attributable to (i) amortisation of intangible assets of approximately RMB52.7 million (2018: RMB77.6 million) and impairment loss on intangible assets of approximately RMB234.3 million (2018: RMB195.1 million); (ii) share-based payment expenses of approximately RMB5.3 million (2018: RMB15.2 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 assets held for sale of approximately RMB3.0 million (2018: Nil); net-off by (iv) the fair value gain on provision for contingent consideration at FVTPL of approximately RMB4.7 million (2018: RMB43.5 million).

FINANCIAL REVIEW

Revenue by Product Category

	2019	2018	Increase/ (decrease)
	RMB'000	*RMB'000*	*% change*
Revenue (Boree Products)	**2,721**	3,463	(21.4)%
Revenue (Graphene-based Products)	**4,024**	4,510	(10.8)%
Revenue (OEM Business)	**162,942**	156,507	4.1%
Revenue (Total)	**169,687**	164,480	3.2%

Boree Products

Revenue from Boree Products decreased by 21.4% to approximately RMB2.7 million during the year (2018: RMB3.5 million) because of the decrease of online sales.

Graphene-based Products

Revenue of Graphene-based Products amounted to approximately RMB4.0 million (2018: RMB4.5 million) during the year. As the wireless connection issue of the third-generation do-it-yourself ("DIY") automated vending system, which restricts the choice of locations, can only be alleviated or resolved through 5G network services, the management of the Group decided to focus on the development of a new generation of DIY automated vending system. The commissioning and improvement of the new generation of DIY automated vending system took longer than expected and due to the outbreak of COVID-19 epidemic, the Group expected that the launch of the new generation of DIY automated vending system will be delayed to June 2020. As a result, revenue of Graphene-based Products decreased during the year.

For other graphene application products, the Group has sent samples of the Sterilizing Chips to an overseas well-known producer of air conditioning system for testing and recognition. As some parameters did not meet the required standard, our research and development team is working on the modification and improvement of the samples and expects to resend the samples for testing soon. As a result, the mass production of the Sterilizing Chips was delayed.

FINANCIAL REVIEW *(continued)*

OEM Business

Revenue from OEM business increased by 4.1% to approximately RMB162.9 million during the year (2018: RMB156.5 million) was mainly attributable to orders from new customers due to effort of sales team.

Selling and Distribution Expenses

During the year, selling and distribution expenses increased by 10.9% to approximately RMB11.1 million as compared with that of last year (2018: RMB10.0 million), which accounted for 6.5% (2018: 6.1%) of the Group's revenue. The increase was mainly attributable to the allocation of additional resources to retain existing customers and explore new customers by the Group during the year.

General and Administrative Expenses

General and administrative expenses recorded a decrease of approximately RMB11.0 million or 19.9% during the year as compared with that of last year (2018: RMB55.0 million), which was mainly attributable to (i) decrease in share-based payment expenses of approximately RMB9.9 million in relation to the share options granted by the Company; (ii) decrease of impairment loss on trade receivables of approximately RMB4.2 million; net-off by (iii) increase in research and development cost of RMB2.5 million during the year.

Liquidity and Financial Resources

During the year, net cash outflow from operating activities of the Group amounted to approximately RMB8.3 million (2018: net cash inflow of approximately RMB9.3 million). As at 31 December 2019, cash and bank balances were approximately RMB4.1 million, representing a decrease of 80.5% as compared with the cash and bank balances as at the end of last year (2018: RMB21.1 million). As at 31 December 2019, around 44.1% and 49.1% of the Group's cash and bank balances were denominated in US dollars and Renminbi respectively. As at 31 December 2019, the short term borrowings of the Group were approximately RMB114.2 million (2018: RMB123.1 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 2019, there were 1,304,059,608 shares in issue and the paid-up capital amounted to approximately RMB86,758,000. During the year, the Company issued a total of 182,800,000 shares to two independent subscribers at the subscription price of HK$0.27 per subscription share. As at 31 December 2019, the Company had 1,486,859,608 shares in issue and a paid-up capital of approximately RMB99,310,000.

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

As at 31 December 2019, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB3.9 million (2018: Nil). As at 31 December 2019, the bank borrowings of the Group were secured by a pledge of certain of the Group's leased properties and leasehold lands (2018: buildings and land use rights) with carrying amounts of approximately RMB6.1 million (2018: RMB9.2 million) and approximately RMB26.2 million (2018: RMB27.0 million) respectively.

Contingent Liabilities

As at 31 December 2019 and 2018, 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.

Debt Ratio

As at 31 December 2019, the debt ratio of the Group was 82.3% (2018: 44.7%). Debt 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 2019, the Group had a total of approximately 740 employees (2018: 780 employees), with total staff costs for the year ended 31 December 2019, including directors' remuneration, amounted to approximately RMB62,951,000 (2018: RMB71,111,000). 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 Subscription of New Shares

Pursuant to the Company's announcements dated 9 November 2018, 12 November 2018, 8 March 2019 and 29 May 2019, two independent subscribers subscribed for a total of 182,800,000 new Shares at a subscription price of HK$0.27 per subscription 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 utilisation of the net proceeds as at 31 December 2019 is set out as follows:

Nature	**Intended use of the net proceeds**	**Amount of the net proceeds utilised during the year ended 31 December 2018**	**Amount of the net proceeds utilised during the year ended 31 December 2019**	**Balance of the net proceeds unutilised as at 31 December 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Research and development of carbon application products *(Note 1)*	18,853	–	15,709	3,144
Settlement of payables owing to Bluestone *(Note 2)*	8,678	–	8,678	–
General working capital *(Note 3)*	15,451	540	14,911	–
Total:	42,982	540	39,298	3,144

Notes:

1. During the year, the intended use of the net proceeds of approximately HK$9,971,000 (equivalent to approximately RMB8,678,000) was changed to "Settlement of payables owing to Bluestone" and approximately HK$9,000,000 (equivalent to approximately RMB7,726,000) was changed to "General working capital" respectively from the original intended use for the "Research and development of carbon application products". It is expected that the remaining balance of the net proceeds allocated for the "Research and development of carbon application products" will be utilised in the financial year ending 31 December 2020.

2. During the year, the intended use of the net proceeds of approximately HK$9,971,000 (equivalent to approximately RMB8,678,000) was changed from "Research and development of carbon application products" to "Settlement of payables owing to Bluestone" and was fully utilised during the year ended 31 December 2019.

3. During the year, the intended use of the net proceeds of approximately HK$9,000,000 (equivalent to approximately RMB7,726,000) was changed from "Research and development of carbon application products" to "General working capital". The balance of the net proceeds allocated for the "General working capital" was fully utilised during the year ended 31 December 2019.

FUTURE PROSPECTS

Looking ahead to 2020, it is expected that the outbreak of COVID-19 epidemic in the PRC together with the ongoing tension arising from the trade talks between the PRC and the US will inevitably bring undesirable short-term impact to operational and financial performance of the Group, especially on the OEM Business and the retail sales of slippers.

Though the Group's factories in Fujian Province have resumed work since 10 February 2020, the Group expects that the COVID-19 epidemic will result in late delivery of some products. On the other hand, due to the continuous outbreak of the epidemic in the US since March 2020, the Group's major OEM customers in the US requested to postpone the delivery time of some orders. Apart from stepping up the effort to catch up with the original planned schedules, the Group keeps close contact with our customers to strive for solutions. Moreover, as the epidemic has bolstered the growing trend of customers staying at home and going online, the Group will focus on the design and sales of indoor slippers and will allocate more resources on on-line sales and local sales in the PRC in 2020 to alleviate the impact of the outbreak of the epidemic.

As the wireless connection issue of the third-generation DIY automated vending system, which restricts the choice of locations, can only be alleviated or resolved through 5G network services, the management of the Group decided to focus on the development of a new generation of DIY automated vending system. As the upgraded new 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. By placing the new generation DIY automated vending system in cooperative stores, we can provide customers an interesting on-site customization DIY shopping experience. This cross-over cooperation can penetrate and expand the PRC market rapidly and most important of all, can foster the popularity of our brand. In 2020, the Group would focus on uplifting our "Boree" brand through this cross-over collaboration but due to the impact of the outbreak of the epidemic, the launch of the new generation of DIY automated vending system would be delayed to June 2020 and the number of DIY automated vending system installed would be substantially reduced.

For other graphene application products, the Group has sent samples of the Sterilizing Chips to an overseas well-known producer of air conditioning system for testing and recognition. As some parameters did not meet the required standard, our research and development team is still working on the modification and improvement of the samples and expects to resend the samples for testing soon. After receiving the recognition, the Sterilizing Chips would be launched in the overseas market for air conditioning system through cooperation with this producer. Besides, due to the outbreak of the epidemic, there is a strong demand in the public for air purifier and sterilizer. The Group is focused on the development for air purifier and sterilizer for household and hopefully can diversify our products to include both large scale air conditioning system and household air purifier and sterilizer.

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, the Group set up a carbon-based energy storage batteries research and development line in the first half of 2019 and the first lot of samples were developed and met all the required standards after testing. The Group targets to set up a production line in the coming year and commence mass production by the end of 2020. The Group aims to produce low cost and long useful life carbon-based energy storage batteries including energy storage batteries for solar power stations and grid systems, and batteries for electric vehicles. After the scale expansion, the Group would be able to enter the energy storage industry, 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 2019, 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 2019.

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 2019, 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 2019 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 2019, 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 2019.

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, 30 March 2020

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.