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 2020

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 2020, together with the comparative figures for 2019 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 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	4	**111,869**	169,687
Cost of sales		**(93,866)**	(139,568)
GROSS PROFIT		**18,003**	30,119
Other net income and gains	4	**13,651**	2,934
(Impairment loss)/reversal of impairment loss on trade receivables from sales of goods		**(527)**	521
Selling and distribution expenses		**(7,922)**	(11,101)
General and administrative expenses		**(59,744)**	(44,547)
Amortisation of intangible assets	12	**(12,280)**	(52,720)
Impairment loss on intangible assets	12	**(64,842)**	(234,295)
Impairment loss on assets held for sale	14	**–**	(3,000)
Finance costs	5	**(5,912)**	(6,072)
Fair value gain on investment properties	10	**14,073**	–
Fair value gain on provision for contingent consideration at fair value through profit or loss	18	**–**	4,769
LOSS BEFORE TAX	6	**(105,500)**	(313,392)
Income tax expense	7	**(3,256)**	(1,044)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(108,756)**	(314,436)
LOSS PER SHARE	9		
– Basic (RMB)		**(0.07)**	(0.22)
– Diluted (RMB)		**(0.07)**	(0.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**28,125**	49,291
Investment properties	*10*	**60,029**	–
Right-of-use assets	*11*	**4,533**	27,351
Intangible assets	*12*	**154**	77,255
		92,841	153,897
CURRENT ASSETS			
Inventories		**39,127**	29,367
Trade receivables	*13*	**44,454**	44,784
Prepayments, deposits and other receivables		**14,813**	38,394
Pledged deposits		**3,780**	3,855
Cash and bank balances		**625**	4,101
		102,799	120,501
CURRENT LIABILITIES			
Trade and bills payables	*15*	**65,705**	56,856
Deposits received, other payables and accruals		**38,926**	51,553
Short term borrowings	*16*	**130,140**	114,200
Lease liabilities	*17*	**131**	604
Income tax payable		**–**	100
		234,902	223,313
NET CURRENT LIABILITIES		**(132,103)**	(102,812)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(39,262)**	51,085
NON-CURRENT LIABILITIES			
Lease liabilities	*17*	**211**	550
Deferred tax liability		**5,416**	2,557
		5,627	3,107
(NET LIABILITIES)/NET ASSETS		**(44,889)**	47,978
EQUITY			
Share capital		**99,310**	99,310
Reserves		**(144,199)**	(51,332)
(CAPITAL DEFICIENCY)/TOTAL EQUITY		**(44,889)**	47,978

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"), graphene deodorizing and sterilizing chips for air purifiers and air conditioners ("Sterilizing Chips") and graphene air sterilizers.

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 2020, the Group's current liabilities exceeded its current assets by approximately RMB132,103,000 and its total liabilities exceeded total assets by approximately RMB44,889,000. The Group incurred a loss for the year of approximately RMB108,756,000 for the year ended 31 December 2020. 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 RMB97,500,000 are annual renewable revolving loan. The secured bank loans are granted to a PRC subsidiary for its working capital requirements. The renewable revolving loans are secured by a pledge of the Group's buildings with carrying amount of approximately RMB3,575,000, leasehold land and the land of investment properties with carrying amounts of approximately RMB4,194,000 and approximately RMB31,189,000 respectively. Based on the latest estimation of the bank, the estimated marketable value of these securities amounted to approximately RMB107,870,000. The bank loans are also secured by the corporate guarantee for RMB75,100,000 and personal guarantee of a Director for RMB133,600,000 and properties owned by a Director's son for RMB1,370,000 respectively. The PRC subsidiary is a profitable operation and has net operating cash inflow, and there is no serious deterioration in the performance of the subsidiary. In the opinion of the Directors and based on past experience with the banks, 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 RMB40,000,000 in total from an independent third party, in which part of the facility amounting to RMB5,000,000 would expire on 30 July 2021 and the remaining facility amounting to RMB35,000,000 would expire on 31 December 2021. The credit facility utilised amounted to RMB32,640,000 as at 31 December 2020. The unutilised 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 an 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;

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

5. On 24 March 2021, the Company entered into a share subscription agreement ("Subscription Agreement") with an independent third party, in relation to the subscription for 20,000,000 new ordinary shares of the Company ("Shares") at HK$4 per share (the "Subscription"). The net proceeds from the Subscription will amount to HK$79,700,000. On the same day, the Company entered into a placing agreement ("Placing Agreement") with a placing agent, pursuant to which the Company has agreed to place through the placing agent, on a best effort basis, up to 100,000,000 new Shares at HK$4 per share (the "Placing"). The maximum net proceeds from the Placing will amount to HK$397,860,000. Both the Subscription and the Placing are subjected to the conditions stated in the agreements. On 26 March 2021, the share subscription deposit for HK$80,000,000 had been received.

2. BASIS OF PREPARATION *(continued)*

Upon completion of the Subscription and the Placing, the Group will use the net proceeds of the Subscription and the Placing (i) as to approximately HK$300,000,000 for the development of the photovoltaic and related business; (ii) as to approximately HK$82,560,000 for the general working capital of the Group; (iii) as to approximately HK$50,000,000 for the settlement of other payables and short term borrowings of the Group; and (iv) as to approximately HK$45,000,000 for the settlement of payable for the casting silicon furnaces as disclosed in the announcement of the Company dated 29 January 2021.

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 2020 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 the following revised IFRSs, which include IFRSs and IASs issued by the IASB for the first time in the current year.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	Covid-19 Related Rent Concessions (early adopted)

The Directors consider the application of the above amendments to IFRSs do not have any material impact on the consolidated financial statements for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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, Sterilizing Chips and graphene air sterilizers (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 investment properties, fair value change on 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, investment properties, certain right-of-use assets, intangible assets, raw materials, work in progress, prepayments, deposits and other receivables, pledged deposits and cash and bank balances as these assets are managed on a group basis.

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

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

Year ended 31 December 2020

	Boree Products *RMB'000*	Graphene-based Products *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	**2,025**	**4,154**	**105,690**	**111,869**
Segment results	**(3,082)**	**1,914**	**10,876**	**9,708**
Reconciliation:				
Interest income				**43**
Other unallocated net income and gains				**13,608**
Impairment loss on trade receivables from sales of goods				**(527)**
Corporate and other unallocated expenses				**(59,371)**
Amortisation of intangible assets				**(12,280)**
Impairment loss on intangible assets				**(64,842)**
Fair value gain on investment properties				**14,073**
Finance costs				**(5,912)**
Loss before tax				**(105,500)**
Segment assets	**606**	**682**	**66,197**	**67,485**
Reconciliation:				
Corporate and other unallocated assets				**128,155**
Total assets				**195,640**
Segment liabilities	**300**	**322**	**–**	**622**
Reconciliation:				
Corporate and other unallocated liabilities				**239,907**
Total liabilities				**240,529**

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)*

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
PRC (principal place of operations)	**8,778**	10,898
United States of America ("US")	**97,515**	152,168
South America	**123**	782
Europe	**2,061**	2,629
South East Asia	**141**	316
Other countries	**3,251**	2,894
	111,869	169,687

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

(b) Non-current assets

	2020	2019
	RMB'000	*RMB'000*
PRC (principal place of operations)	**92,841**	153,897

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:

	2020	2019
	RMB'000	*RMB'000*
Customer A	**74,834**	80,164
Customer B	**15,066**	27,169
Customer C*	**1,615**	33,744

* Revenue from Customer C contributed less than 10% of the total sales of the Group for the year ended 31 December 2020.

The Group's major customers are included 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 and other net income and gains is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue		
At a point in time		
Manufacture and sale of goods	**111,869**	169,687
Other net income and gains		
Interest income	**43**	85
Sales of scrap materials	**–**	574
Rental income from investment properties	**1,445**	–
Rental income under operating leases	**1,330**	467
Subsidy income*	**3,298**	1,532
Exchange gain, net	**–**	256
Reversal of provision for social security	**5,154**	–
Reversal of long outstanding payables	**2,265**	–
Rent concession	**52**	–
Gain on termination of lease	**24**	–
Others	**40**	20
	13,651	2,934

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

5. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**5,868**	5,890
Interest on letters of credit	**–**	111
Interest on lease liabilities	**44**	71
	5,912	6,072

6. LOSS BEFORE TAX

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

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold*	**94,762**	139,402
Depreciation of property, plant and equipment*	**6,217**	6,131
Depreciation of right-of-use assets*	**750**	1,315
Amortisation of intangible assets	**12,280**	52,720
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**44,513**	53,474
Equity-settled share-based payments	**15,889**	5,299
Staff welfares	**1,022**	821
Contributions to retirement benefits schemes	**3,192**	3,357
	64,616	62,951
Auditors' remuneration	**1,511**	1,357
Impairment loss on intangible assets	**64,842**	234,295
Impairment loss on assets held for sale	**–**	3,000
Impairment loss/(reversal of impairment loss) on trade receivables from sales of goods	**527**	(521)
(Reversal of write-down)/write-down of inventories	**(896)**	166
Loss on disposals of items of property, plant and equipment	**614**	139
Exchange loss/(gain), net	**1,946**	(256)
Research and development costs**	**14,055**	10,683

* *The cost of inventories sold for the year ended 31 December 2020 includes approximately RMB27,822,000 (2019: RMB34,441,000) relating to direct staff costs, depreciation of manufacturing facilities, depreciation of right-of-use assets and operating lease rentals 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 for the year ended 31 December 2020 includes approximately RMB8,678,000 (2019: RMB8,213,000) relating to staff costs, depreciation of research and development facilities and depreciation of right-of-use assets, which are also included in the respective total amounts disclosed above for each of these types of expenses. The amounts are included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong for the year (2019: 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.

	2020	2019
	RMB'000	*RMB'000*
PRC Enterprise Income Tax		
Charge for the year	**200**	600
Under-provisions in prior years	**197**	378
Deferred tax	**2,859**	66
Total tax expense for the year	**3,256**	1,044

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2020 and 2019 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 RMB108,756,000 (2019: RMB314,436,000) and the number of Shares of 1,486,859,608 (2019: 1,453,805,361) in issue during the year.

The number of Shares used to calculate the basic loss per share for the year ended 31 December 2020 included the 1,486,859,608 Shares in issue as at 1 January 2020 and 31 December 2020.

The weighted average number of Shares used to calculate the basic loss per share for the year ended 31 December 2019 included the 1,304,059,608 Shares in issue as at 1 January 2019 and 182,800,000 Shares issued on 8 March 2019 in respect of the completion of subscription of new Shares.

During the years ended 31 December 2020 and 2019, 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. INVESTMENT PROPERTIES

	RMB'000
At 1 January 2020	–
Upon the completion of construction:	
Transfer from investment properties under construction	24,074
Transfer from right-of-use assets for investment properties under construction	21,882
Fair value gain on investment properties	14,073
At 31 December 2020	**60,029**

The Group's properties located in the PRC are leased to a third party to earn rentals or for capital appreciation purposes.

The fair value of the Group's investment properties on initial recognition on completion of construction and as at 31 December 2020 has been arrived at on the basis of the valuations carried out by Quanzhou Heyi Assets and Real Estate Appraisal Co., Ltd, an independent professional valuer. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

The Group has pledged the land of investment properties with a net carrying amount of approximately RMB31,189,000 to secure general banking facilities granted to the Group. The building of investment properties with a net carrying amount of approximately RMB28,840,000 was pledged to secure loan facility from an independent third party.

11. RIGHT-OF-USE ASSETS

	Leasehold lands *RMB'000*	**Land for development of investment properties** *RMB'000*	**Leased properties** *RMB'000*	**Total** *RMB'000*
Cost:				
At 1 January 2019	4,488	22,466	1,255	28,209
Additions	–	–	457	457
At 31 December 2019 and 1 January 2020	4,488	22,466	1,712	28,666
Additions	–	–	345	345
Written off	–	–	(879)	(879)
Transfer to investment properties on completion of construction	–	(22,466)	–	(22,466)
At 31 December 2020	4,488	–	1,178	5,666

11. RIGHT-OF-USE ASSETS *(continued)*

	Leasehold lands *RMB'000*	Land for development of investment properties *RMB'000*	Leased properties *RMB'000*	Total *RMB'000*
Accumulated depreciation:				
At 1 January 2019	–	–	–	–
Provided for the year	147	584	584	1,315
At 31 December 2019 and 1 January 2020	147	584	584	1,315
Provided for the year	147	–	603	750
Written off	–	–	(348)	(348)
Transfer to investment properties on completion of construction	–	(584)	–	(584)
At 31 December 2020	294	–	839	1,133
Net carrying amount:				
At 31 December 2020	4,194	–	339	4,533
At 31 December 2019	4,341	21,882	1,128	27,351

	2020 ***RMB'000***	2019 *RMB'000*
Expense relating to short-term leases and other leases with lease terms ending within 12 months	**2,231**	384
Total cash outflow for leases for the year	**1,328**	1,014

12. INTANGIBLE ASSETS

	Technology Know-how (Notes a,c) RMB'000	O2O distribution vending system (Notes b,c) RMB'000	Deferred development costs and patents (Note d) RMB'000	Total RMB'000
Cost:				
At 1 January 2019	1,587,518	60,000	92,553	1,740,071
Addition	–	–	24	24
At 31 December 2019 and 1 January 2020	1,587,518	60,000	92,577	1,740,095
Addition	–	–	21	21
At 31 December 2020	1,587,518	60,000	92,598	1,740,116
Accumulated amortisation and impairment:				
At 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 and 1 January 2020	1,526,518	44,000	92,322	1,662,840
Provided for the year	9,632	2,526	122	12,280
Impairment loss for the year	51,368	13,474	–	64,842
At 31 December 2020	1,587,518	60,000	92,444	1,739,962
Net carrying amount:				
At 31 December 2020	–	–	154	154
At 31 December 2019	61,000	16,000	255	77,255

Notes:

(a) It represented 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.

12. 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 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 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 (2019: relief from royalty method) and considered that provision for impairment to the carrying amount of the O2O distribution vending system of RMB13,474,000 (2019: RMB25,835,000) should be made as at 31 December 2020.

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% (2019: 10.00%) was used and the present value of the estimated royalty payments is calculated using discount rate of approximately 20.93% (2019: 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.

12. 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 "CGU"), 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 with reference to a valuation of the fair value of the Technology Know-how conducted by Ascent Partners, using multi-period excess earnings method (2019: multi-period excess earnings method) and considered that provision for impairment to the carrying amount of the Technology Know-how of approximately RMB51,368,000 (2019: RMB187,727,000) should be made as at 31 December 2020. The multi-period excess earnings method is based on a discount rate of approximately 22.93% (2019: 22.90%) 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 other online platform 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 CGU 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 was made as at 31 December 2019.

As at 31 December 2020 and 2019, the carrying amount represented the patents for research and development of manufacturing and application technology of graphene material on certain products.

13. 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 to six months (2019: 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.

	2020	2019
	RMB'000	*RMB'000*
Contracts with customers	**45,633**	52,770
Less: Allowance for credit losses	**(1,179)**	(7,986)
Total trade receivables	**44,454**	44,784

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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**42,167**	39,440
4 to 6 months	**1,635**	3,637
7 to 12 months	**652**	1,707
	44,454	44,784

14. ASSETS 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 of certain property, plant and equipment with land use right located in the 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 non-refundable 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 remaining balance was received during 2020.

14. ASSETS HELD FOR SALE *(continued)*

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

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

15. 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:

	2020 ***RMB'000***	2019 *RMB'000*
Within 3 months	**40,993**	41,913
Over 3 months	**24,712**	14,943
	65,705	56,856

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2019: six months). Bills payable of approximately RMB12,600,000 (2019: RMB12,850,000) were secured by the Group's pledged deposits amounted to approximately RMB3,780,000 as at 31 December 2020 (2019: RMB3,855,000).

16. SHORT TERM BORROWINGS

		2020 ***RMB'000***	2019 *RMB'000*
Secured bank loans repayable within one year	(b)	**97,500**	98,000
Unsecured loans repayable within one year		**32,640**	16,200
		130,140	114,200

16. SHORT TERM BORROWINGS *(continued)*

(a) At 31 December 2020 and 2019, the loans were denominated in Renminbi and bore interest rates ranging from 4.35% to 5.22% per annum.

(b) At 31 December 2020, the secured bank loans of the Group were secured by a pledge of the Group's buildings with carrying amount of approximately RMB3,575,000 (2019: RMB6,096,000), leasehold land and the land of investment properties with carrying amounts of approximately RMB4,194,000 (2019: right-of-use assets of RMB26,223,000) and approximately RMB31,189,000 (2019: Nil) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party and a Director and his son.

17. LEASE LIABILITIES

	31 December 2020 *RMB'000*	31 December 2019 *RMB'000*
Lease liabilities payable:		
Within one year	**131**	604
Within a period of more than one year but not more than two years	**116**	207
Within a period of more than two years but not more than five years	**95**	343
	342	1,154
Less: Amount due for settlement within 12 months shown under current liabilities	**(131)**	(604)
Amount due for settlement after 12 months shown under non-current liabilities	**211**	550

18. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of the Technology Know-how as explained in note 12, 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.

18. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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 are 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.

"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 convertible notes and RMB270,000,000 by way of cash on 2 February 2016 and 8 September 2016 respectively.

18. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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.

Provision for contingent consideration as at 31 December 2020 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:

	2020	2019
	RMB'000	*RMB'000*
As at the beginning of the year	**–**	4,769
Fair value gain credited to profit or loss during the year	**–**	(4,769)
As at the end of the year	**–**	–

The fair value of the provision for contingent consideration as at 31 December 2019 was calculated using the discounted cash flow approach. The discount rate used in the approach ranging from 14.84% to 14.86%.

18. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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

On 24 March 2021, the Company entered into the Subscription Agreement with an independent third party, in relation to the subscription for 20,000,000 new Shares at HK$4 per share. The gross proceeds and net proceeds from the Subscription are HK$80,000,000 and HK$79,700,000 respectively.

On the same day, the Company entered into the Placing Agreement with a placing agent, pursuant to which the Company has agreed to place through the placing agent, on a best effort basis, up to 100,000,000 new Shares at HK$4 per share. The maximum gross proceeds and maximum net proceeds from the Placing are HK$400,000,000 and HK$397,860,000 respectively.

Reference is made to the announcement of the Company dated 24 March 2021 and both the Subscription and the Placing are in progress as at the date of this announcement.

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 2020:

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 2020 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 RMB108,756,000 for the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB132,103,000 and total liabilities exceeds its total assets by approximately RMB44,889,000. 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. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Although the production of the Group have fully resumed in the first half of the year, the global outbreak of the novel coronavirus ("COVID-19") epidemic and the associated lockdowns and social distancing measures have severely affected the consumer demand and the quantity ordered, resulting in a decline in the sales of the Group, especially for the OEM business, for the current year. During the year, the Group recorded a decrease in revenue of approximately RMB57.8 million or 34.1% to approximately RMB111.9 million (2019: RMB169.7 million).

Due to the contraction in the consumer demand, some major customers of the OEM Business asked for price cut, the Group was forced to reduce its gross profit margin to retain existing customers. Therefore, the gross profit margin of the Group during the year was dropped to approximately 16.1% (2019: 17.7%).

During the year, the Group recorded a net loss of approximately RMB108.8 million, as compared with the net loss of approximately RMB314.4 million of last year. Such decrease in net loss was mainly attributable to (i) decrease in amortisation of intangible assets of approximately RMB40.4 million; (ii) decrease in impairment loss on intangible assets of approximately RMB169.5 million; (iii) fair value gain on investment properties of approximately RMB14.1 million (2019: Nil); net-off by (iv) increase in share-based payment expenses of approximately RMB10.6 million.

Due to the outbreak of the COVID-19 epidemic, the formal launch of the new generation of do-it-yourself ("DIY") automated vending system was delayed to October 2020. Besides, as the epidemic has bolstered the growing trend of customers staying at home and shopping online, the Group would allocate more resources and focused on online sales in the PRC. As the management of the Company made a more prudent estimation on the future quantity and the speed of installation of the DIY automated vending system in the financial model, impairment loss of approximately RMB51.3 million and approximately RMB13.5 million on the Technology Know-how and O2O distribution vending system was recognised during the year.

FINANCIAL REVIEW

Revenue by Product Category

	2020	2019	Increase/ (decrease)
	RMB'000	*RMB'000*	*% change*
Revenue (Boree Products)	**2,025**	2,721	(25.6)%
Revenue (Graphene-based Products)	**4,154**	4,024	3.2%
Revenue (OEM Business)	**105,690**	162,942	(35.1)%
Revenue (Total)	**111,869**	169,687	(34.1)%

Boree Products

As the Group foused on the promotion of the newly launched indoor graphene-based sterilizing slippers "Graphener" during the year, online sales of Boree products declined and revenue from Boree Products decreased by 25.6% to approximately RMB2.0 million during the year (2019: RMB2.7 million).

Graphene-based Products

Revenue of the Graphene-based Products amounted to approximately RMB4.2 million (2019: RMB4.0 million) during the year. Due to the outbreak of the COVID-19 epidemic, the formal launch of the new generation of DIY automated vending system was delayed to October 2020. However, as the epidemic has bolstered the growing trend of customers staying at home and shopping online, the Group allocated more resources on online sales in the PRC and focused on the design and sales of indoor slippers. During the first half of the year, the newly launched indoor graphene-based sterilizing slippers "Graphener" were favored by consumers and the sales kept growing in the second half of the year. As a result, revenue of Graphene-based Products slightly increased during the year.

For other graphene application products, the Group has launched three models of air sterilizers "Graphenix" and has sent samples to an overseas well-known producer of air conditioning system for testing and recognition. Graphenix is specially designed to kill viruses and bacteria that cause allergies and respiratory system discomfort and different models are designed for household and for places with strict requirements on air quality, such as workplace, studio, and other demanding indoor environment. The feedback from this customer is positive and a first order of small quantity was completed during the year.

FINANCIAL REVIEW *(continued)*

OEM Business

Due to the global outbreak of the COVID-19 epidemic and the associated lockdowns and social distancing measures, the consumer demand for non-essential retail goods was severely affected. Although the delayed customers orders in the first half of this year were gradually resumed in the second half of the year, some orders near the end of the year could not be completed in time during the year, the shipment had to be postponed to the first quarter of 2021. The contraction in the customer demand resulting in a substantial decrease of approximately RMB57.2 million revenue from OEM business to approximately RMB105.7 million during the year (2019: RMB162.9 million).

Selling and Distribution Expenses

During the year, selling and distribution expenses decreased by 28.6% to approximately RMB7.9 million as compared with that of last year (2019: RMB11.1 million), which accounted for 7.1% (2019: 6.5%) of the Group's revenue. The decrease was mainly attributable to the decline in sales during the year.

General and Administrative Expenses

General and administrative expenses recorded an increase of approximately RMB15.2 million or 34.1% during the year as compared with that of last year (2019: RMB44.5 million), which was mainly attributable to (i) increase in share-based payment expenses of approximately RMB10.6 million in relation to the share options granted by the Company on 22 October 2020; and (ii) increase in research and development cost of approximately RMB3.4 million during the year.

Liquidity and Financial Resources

During the year, net cash outflow from operating activities of the Group amounted to approximately RMB2.6 million (2019: RMB8.3 million). As at 31 December 2020, cash and bank balances were approximately RMB0.6 million, representing a decrease of 84.8% as compared with the cash and bank balances as at the end of last year (2019: RMB4.1 million). As at 31 December 2020, around 61.4% and 30.6% of the Group's cash and bank balances were denominated in Hong Kong dollars and Renminbi respectively. As at 31 December 2020, the short term borrowings of the Group were approximately RMB130.1 million (2019: RMB114.2 million). All loans were denominated in Renminbi, with fixed interest rates and repayable within one year.

As at 31 December 2020, the gearing ratio of the Group was -523.8% (2019: 466.4%). Gearing ratio was calculated as total debt divided by the total equity. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

FINANCIAL REVIEW *(continued)*

Capital Structure

As at 1 January 2020 and 31 December 2020, 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 2020, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB3.8 million (2019: RMB3.9 million). As at 31 December 2020, the bank borrowings of the Group were secured by a pledge of the Group's buildings with carrying amount of approximately RMB3.6 million (2019: RMB6.1 million), leasehold land and the land of investment properties with carrying amounts of approximately RMB4.2 million (2019: right-of-use assets of RMB26.2 million) and approximately RMB31.2 million (2019: Nil) respectively.

The building of investment properties with carrying amount of approximately RMB28.8 million was pledged to an independent third party for a loan facility of RMB20 million. The loan facility was not yet utilized as at 31 December 2020.

Contingent Liabilities

During the year of 2020, a supplier had filed lawsuit against the overdue payment of Quanzhou Baofeng Shoes Co., Ltd. ("Quanzhou Baofeng"), an indirect wholly-owned subsidiary of the Company, with total amount of approximately RMB0.5 million (the "Amount in Question") and the first trial held that Quanzhou Baofeng shall repay the Amount in Question plus interest.

Based on the best estimation of the management of the Company, Quanzhou Baofeng has valid ground in opposing the Amount in Question in the judgement of the above said case. As the lawsuit is in the process of appeal, the corresponding legal fee and interest are uncertain. Accordingly, no provision has been made in the consolidated financial statement.

Except as described above, there was no material contingent liabilities as at 31 December 2020 and 2019.

FINANCIAL REVIEW *(continued)*

Foreign Exchange Risk

During the year, the revenue 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 2020, the debt ratio of the Group was 123.6% (2019: 82.3%). 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.

Human Resources

As at 31 December 2020, the Group had a total of approximately 600 employees (2019: 740 employees), with total staff costs for the year ended 31 December 2020, including directors' remuneration, amounted to approximately RMB64,616,000 (2019: RMB62,951,000). 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

As disclosed in the Company's announcements dated 9 November 2018, 12 November 2018, 8 March 2019 and 29 May 2019, Venus Capital Fund and Mr. Chiu Hsin-Wang, the two independent subscribers, subscribed for a total of 182,800,000 new Shares of US$0.01 each at a subscription price of HK$0.27 per subscription share which were completed on 8 March 2019 (the "Subscription"). The closing market price was HK$0.33 per Share on the date on which the terms of the Subscription were fixed. The gross proceeds from the Subscription was approximately HK$49,356,000 (equivalent to approximately RMB43,175,000), and the net proceeds (after deducting the relevant expenses incurred in the Subscription) were approximately HK$49,136,000 (equivalent to approximately RMB42,982,000). The net subscription price, after deducting relevant expenses, was approximately HK$0.27 per subscription share.

The Directors considered that the Subscription represented an opportunity to raise additional funding for research and development of carbon-based energy storage batteries in order to develop new markets and new business, and provide working capital to the Group to meet any financial obligations of the Group.

The utilisation of the net proceeds as at 31 December 2020 is set out as follows:

Nature	**Intended use of the net proceeds**	**Amount of the net proceeds utilised up to 31 December 2019**	**Amount of the net proceeds utilised during the year ended 31 December 2020**	**Balance of the net proceeds unutilised as at 31 December 2020**
	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	15,451	–	–
Total:	42,982	39,838	3,144	–

FINANCIAL REVIEW *(continued)*

Use of Net Proceeds from the Subscription of New Shares *(continued)*

Notes:

1. After detailed research on equipment procurement, the Group decided to use production equipment from battery manufacturers in the market for the Group's production, so it only needs to set up a battery research and development line which requires less fund than expected. As a result, 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" during the year ended 31 December 2019. The remaining balance of the net proceeds allocated for the "Research and development of carbon application products" was fully utilised during the year ended 31 December 2020.

2. After detailed research on equipment procurement, the Group decided to use production equipment from battery manufacturers in the market for the Group's production, so it only needs to set up a battery research and development line which requires less fund than expected. As a result, 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" during the year ended 31 December 2019. The balance of the net proceeds allocated for the "Settlement of payables owing to Bluestone" was fully utilised during the year ended 31 December 2019.

3. After detailed research on equipment procurement, the Group decided to use production equipment from battery manufacturers in the market for the Group's production, so it only needs to set up a battery research and development line which requires less fund than expected. As a result, 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" during the year ended 31 December 2019. The balance of the net proceeds allocated for the "General working capital" was fully utilised during the year ended 31 December 2019.

FUTURE PROSPECTS

Existing Business

The global outbreak of the COVID-19 epidemic is expected to continue to have a negative impact on the global retail market in 2021. However, it is expected that the retail market will recover from the shock as many countries started the COVID-19 vaccinations and plan to ease the restrictive measures. The Group expects the delayed orders of OEM customers in last year will resume in 2021.

China's most recent ecommerce boom did not decelerate even after the COVID-19 epidemic was under control, the consumers do not lose interest in online purchasing and will likely maintain the same or perhaps higher levels of online purchasing forevermore. Hence, the Group would focus on online sales in the PRC and the design and sales of indoor slippers in 2021.

For other graphene application products, the Group is still negotiating with a potential customer on the sales terms of air sterilizers. For the carbon-based energy storage batteries, the Group has sent samples to our cooperative parties for joint production for testing and met all the required standards. As the Group would focus and allocate more resources on the manufacturing of large size cast monocrystalline silicon ("Cast-mono") wafers and high efficiency heterojunction technology ("HJT") solar cells in 2021, the mass production schedule of carbon-based energy storage batteries would be delayed.

New Business

As disclosed in the Company's announcements dated 25 January, 29 January and 11 March 2021, the Group successfully utilized casting technology to produce Cast-mono wafers, which was then used to manufacture HJT solar cells with an energy conversion efficiency exceeding 24.0% in September 2020. Besides, the Group entered into a casting silicon furnaces purchase agreement with the subsidiary of GCL-Poly Energy Holdings Limited on 29 January 2021, and entered into a license letter of intent with GS-Solar (Fujian) Company Limited and its subsidiary ("GS-Solar Group") in relation to the patents and process techniques of HJT solar cells, together with a lease framework agreement in respect of the lease of production equipment for 500MW high efficiency HJT solar cells and a plant located in Fujian Province on 11 March 2021. The challenges in the photovoltaic industry are often substantial capital intensity and rapid technological obsolescence, resulting in difficult investment payback. Through the above arrangements, the Group adopts an asset-light business model as it transitions to new businesses in Cast-mono wafers and Cast-mono HJT solar cells.

FUTURE PROSPECTS *(continued)*

New Business *(continued)*

HJT has increasingly been discussed in the solar market and is believed to have an energy conversion efficiency higher than that of the passivated emitter and rear cell technology ("PERC"). The Group believes that achieving similar or even lower manufacturing costs than PERC would be key to a successful transition from PERC to HJT in the solar industry. As the cost of silicon wafers generally accounts for more than half of total manufacturing cost of HJT solar cells, it is common for manufacturers to attempt reducing silicon wafers cost by continuously boosting production capacity, in order to benefit from economies of scale. Leveraging on its many years of investments in research and development of materials science, the Group has successfully developed a new technology which utilizes the lower cost casting technology to manufacture Cast-mono wafers with performances that are very similar to regular wafers produced with monocrystalline silicon using the Czochralski method ("CZ-mono").

1. **Cast-mono Wafers**

   According to the 2019-2020 China Photovoltaic Industry Annual Report, Cast-mono wafers accounted for less than 3% market share of photovoltaic industry in 2019 in the PRC, while CZ-mono wafers accounted for more than 60%. In recent years, the latter has benefited from advancing manufacturing process and rising energy conversion efficiency. On the other hand, traditional casting method suffered from excessive impurities found in the wafers, which in turn results in a lower yield (often around 60%) of usable wafers. With its new proprietary technology and process know-how, the Group has managed to reduce such impurities, with a goal to raising its yield to over 90%, effectively lowering production costs.

2. **Cast-mono HJT Solar Cells**

   Recently, a few suppliers have started utilizing Cast-mono in PERC cells in order to benefit from lower manufacturing cost and energy conversion efficiency similar to that of CZ-mono PERC cells. The Group believes that higher energy conversion efficiency of leading HJT coupled with our innovative Cast-mono wafer technology could well position the next-generation Cast-mono HJT solar cells to compete with the mainstream CZ-mono PERC cells.

FUTURE PROSPECTS *(continued)*

New Business *(continued)*

3. Near-term Goals

The Group has recently procured 290 sets of casting silicon furnaces and its maximum production capacity is expected to be over 7 gigawatts located in Xuzhou City, Jiangsu Province. Modification work on the casting silicon furnaces would be commenced to incorporate our proprietary Cast-mono wafer technology to produce Cast-mono wafers. The Group plans to use such wafers to produce Cast-mono HJT solar cells in the plant in Putian City, Fujian Province, under the aforementioned lease and technology license collaboration with GS-Solar Group. In the case that demand for HJT solar modules arises from potential customers in the midst of the Group's promotion of HJT, the Group currently plans to outsource the production of HJT solar modules to external module manufacturers using HJT solar cells produced by the Group. In addition, the Group will actively collaborate with players in the photovoltaic industry to promote the applications of Cast-mono HJT globally.

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 2020, 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 throughout the year ended 31 December 2020. Since 26 February 2021, Mr. Leung Tsz Chung has been appointed as the Chairman of the Board and the Chief Executive Officer of the Group. 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 3 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 2020.

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 2020, 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 2020 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 2020, 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 2020.

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
Leung Tsz Chung
Chairman

Hong Kong, 30 March 2021

As at the date of this announcement, the executive Directors are Mr. Leung Tsz Chung, Mr. Zheng Jingdong and Dr. Xu Zhi; 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.