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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2017 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2016 and the relevant explanatory notes as set out below.

The condensed consolidated interim results are unaudited, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
REVENUE	4	**79,328**	94,854
Cost of sales		**(59,480)**	(71,456)
GROSS PROFIT		**19,848**	23,398
Other net income and gains	4	**854**	1,308
Selling and distribution expenses		**(4,772)**	(5,489)
General and administrative expenses		**(22,664)**	(26,734)
Amortisation of intangible assets	9	**(63,298)**	(26,350)
Finance costs	5	**(3,335)**	(4,318)
Fair value gain on convertible notes and warrants at fair value through profit or loss	13	**33,747**	22,757
Fair value loss on provision for contingent consideration at fair value through profit or loss	14	**(18,139)**	(11,448)
LOSS BEFORE TAX	6	**(57,759)**	(26,876)
Income tax expense	7	**(1,625)**	(310)
LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(59,384)**	(27,186)
LOSS PER SHARE	8		
– Basic (RMB)		**(0.055)**	(0.025)
– Diluted (RMB)		**(0.055)**	(0.025)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**80,055**	82,010
Prepaid land lease payments		**32,218**	32,640
Intangible assets	*9*	**1,239,090**	1,302,378
		1,351,363	1,417,028
CURRENT ASSETS			
Inventories		**18,507**	24,922
Trade receivables	*10*	**42,078**	76,132
Prepayments, deposits and other receivables		**19,388**	7,437
Pledged deposits		**2,498**	4,283
Cash and bank balances		**4,002**	4,789
		86,473	117,563
CURRENT LIABILITIES			
Trade and bills payables	*11*	**38,337**	53,889
Deposits received, other payables and accruals		**31,166**	33,518
Interest-bearing bank borrowings	*12*	**121,000**	124,000
Warrants	*13*	**24**	5,067
Income tax payable		**7,199**	8,285
		197,726	224,759
NET CURRENT LIABILITIES		**(111,253)**	(107,196)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,240,110**	1,309,832
NON-CURRENT LIABILITIES			
Convertible notes	*13*	**166,120**	194,824
Provision for contingent consideration	*14*	**282,302**	268,565
Deferred tax liability		**3,071**	3,071
		451,493	466,460
NET ASSETS		**788,617**	843,372
EQUITY			
Share capital	*15*	**71,629**	71,629
Reserves		**716,988**	771,743
TOTAL EQUITY		**788,617**	843,372

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
		Reserves								
	Share capital *RMB'000*	Share premium *RMB'000*	Contributed surplus *RMB'000*	Statutory surplus fund *RMB'000*	Exchange fluctuation reserve *RMB'000*	Capital redemption reserve *RMB'000*	Share options reserve *RMB'000*	Retained profits *RMB'000*	Total reserves *RMB'000*	Total equity *RMB'000*
At 1 January 2016 (audited)	70,555	401,639	141,376	96,338	155	524	10,688	407,766	1,058,486	1,129,041
Issue of shares upon exercise of share options	1,055	14,435	–	–	–	–	(4,491)	–	9,944	10,999
Loss and total comprehensive expense for the Period	–	–	–	–	–	–	–	(27,186)	(27,186)	(27,186)
Equity-settled share option arrangements	–	–	–	–	–	–	11,864	–	11,864	11,864
At 30 June 2016 (unaudited)	71,610	416,074	141,376	96,338	155	524	18,061	380,580	1,053,108	1,124,718

For the six months ended 30 June 2017

	Attributable to owners of the Company									
		Reserves								
	Share capital ***RMB'000***	**Share premium** ***RMB'000***	**Contributed surplus** ***RMB'000***	**Statutory surplus fund** ***RMB'000***	**Exchange fluctuation reserve** ***RMB'000***	**Capital redemption reserve** ***RMB'000***	**Share options reserve** ***RMB'000***	**Retained profits** ***RMB'000***	**Total reserves** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2017 (audited)	**71,629**	**416,325**	**141,376**	**95,478**	**155**	**524**	**25,363**	**92,522**	**771,743**	**843,372**
Loss and total comprehensive expense for the Period	–	–	–	–	–	–	–	**(59,384)**	**(59,384)**	**(59,384)**
Equity-settled share option arrangements	–	–	–	–	–	–	**4,629**	**–**	**4,629**	**4,629**
Forfeiture of share options	–	–	–	–	–	–	**(68)**	**68**	–	–
At 30 June 2017 (unaudited)	**71,629**	**416,325**	**141,376**	**95,478**	**155**	**524**	**29,924**	**33,206**	**716,988**	**788,617**

NOTES:

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at 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 ordinary shares of the Company (the "Shares") 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 involved in the manufacture and sale of slippers, sandals, casual footwear and graphene-based ethylene-vinyl acetate ("EVA") foam material and slippers. An analysis of the Group's performance for the Period by business segment is set out in note 3 to this interim financial results.

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 unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting issued by the International Accounting Standards Board and the disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

As at 30 June 2017, the Group's current liabilities exceeded its current assets by approximately RMB111,253,000. The Group incurred a loss for the Period of approximately RMB59,384,000. 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.

2. BASIS OF PREPARATION *(continued)*

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 followings:

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

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

3. The Group has obtained a new facility of RMB40,000,000 from a financial institution in June 2017 which was guaranteed by a subsidiary of the Group.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. 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 twelve months from the end of the reporting period. Accordingly, the Directors are of the opinion that it is appropriate to prepare the Interim Financial Statements for the six months ended 30 June 2017 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 Interim Financial Statements.

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements as detailed below:

The Group has adopted the following new and revised IFRSs which are effective for the Group's financial year beginning on 1 January 2017.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle

2. BASIS OF PREPARATION *(continued)*

These new and revised IFRSs have had no material impact on the contents of the Interim Financial Statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 and slippers with sterilizing, good elasticity and tear resistant functions ("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, fair value change on convertible notes, warrants 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, prepaid land lease payments, 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, interest-bearing bank borrowings, convertible notes, warrants, income tax payable, deferred tax liability and provision for contingent consideration as these liabilities are managed on a group basis.

Regarding the Baofeng branded products segment presented for the period ended 30 June 2016, it is not reported in the Period since it ceased operation in 2016.

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

Period ended 30 June 2017

	Boree Products *RMB'000* (unaudited)	Graphene-based Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue				
Sales to external customers	1,528	99	77,701	79,328
Segment results	(844)	(66)	15,986	15,076
Reconciliation:				
Interest income				55
Other unallocated net income and gains				799
Corporate and other unallocated expenses				(22,664)
Amortisation of intangible assets				(63,298)
Fair value gain on convertible notes and warrants at FVTPL				33,747
Fair value loss on provision for contingent consideration at FVTPL				(18,139)
Finance costs				(3,335)
Loss before tax				(57,759)

As at 30 June 2017

	Boree Products *RMB'000* (unaudited)	Graphene-based Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment assets	4,613	17,889	24,138	46,640
Reconciliation:				
Corporate and other unallocated assets				1,391,196
Total assets				1,437,836
Segment liabilities	300	–	–	300
Reconciliation:				
Corporate and other unallocated liabilities				648,919
Total liabilities				649,219

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

Period ended 30 June 2016

	Boree Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue			
Sales to external customers	710	94,144	94,854
Segment results	(2,561)	20,470	17,909
Reconciliation:			
Interest income			795
Other unallocated net income and gains			513
Corporate and other unallocated expenses			(26,734)
Amortisation of intangible assets			(26,350)
Fair value gain on convertible notes and warrants at FVTPL			22,757
Fair value loss on provision for contingent consideration at FVTPL			(11,448)
Finance costs			(4,318)
Loss before tax			(26,876)

As at 31 December 2016

	Boree Products *RMB'000* (audited)	Graphene-based Products *RMB'000* (audited)	OEM *RMB'000* (audited)	Total *RMB'000* (audited)
Segment assets	1,497	33,011	48,340	82,848
Reconciliation:				
Corporate and other unallocated assets				1,451,743
Total assets				1,534,591
Segment liabilities	300	–	–	300
Reconciliation:				
Corporate and other unallocated liabilities				690,919
Total liabilities				691,219

3. SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC (principal place of operations)	**1,629**	3,160
United States of America ("US")	**71,607**	89,632
South America	**375**	402
Europe	**1,461**	232
South East Asia	**1,945**	258
Other countries	**2,311**	1,170
	79,328	94,854

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

(b) Non-current assets

	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC (principal place of operations)	**1,351,355**	1,417,018

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

Information about major customers

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**48,152**	41,836
Customer B	**8,135**	13,785
Customer C	**6,695**	19,609

* Revenue from Customer C contributed less than 10% of the total sales of the Group for the Period.

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:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Manufacture and sales of goods	**79,328**	94,854
Other net income and gains		
Interest income	**55**	795
Sales of scrap material	**62**	258
Rental income	**171**	219
Subsidy income	**164**	–
Others	**402**	36
	854	1,308

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	**3,335**	4,318

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**59,499**	70,027
Depreciation*	**3,584**	3,992
Amortisation of prepaid land lease payments	**422**	422
Amortisation of intangible assets	**63,298**	26,350
Minimum lease payments under operating leases in respect of land and buildings*	**211**	205
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**22,206**	24,495
Equity-settled share option expenses	**4,629**	11,864
Staff welfares	**515**	614
Contributions to retirement benefits schemes	**1,205**	1,615
	28,555	38,588
Reversal of impairment loss on trade receivables	**(690)**	(263)
(Reversal of write down)/write down of inventories	**(19)**	1,429
Loss on disposal of items of property, plant and equipment	**108**	–
Research and development costs**	**4,615**	1,571

* *The cost of inventories sold for the Period includes approximately RMB16,563,000 (2016: RMB19,536,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

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

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group's tax losses brought forward from prior years exceeded the assessable profits arising in Hong Kong for the Period (2016: 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.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	**813**	208
Under-provision in prior years	**812**	102
Total tax charge for the period	**1,625**	310

8. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the Period attributable to owners of the Company of approximately RMB59,384,000 (2016: RMB27,186,000) and the weighted average number of Shares of 1,084,059,608 (2016: 1,077,726,861) in issue during the Period.

The weighted average number of Shares used to calculate the basic loss per share for the Period included the 1,084,059,608 Shares in issue as at 1 January 2017 and 30 June 2017.

The weighted average number of Shares used to calculate the basic loss per share for the period ended 30 June 2016 included the 1,067,579,608 Shares in issue as at 1 January 2016, and 16,200,000 Shares issued on 9 March 2016 in respect of the exercise of share options.

During the periods ended 30 June 2017 and 2016, diluted loss per share does not assume the exercise of the Company's share options and convertible notes as the exercise of the Company's share options and convertible notes would result in a decrease in loss per share, and is regarded as anti-dilutive.

9. 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 2016	1,483,117	–	–	1,483,117
Addition during the year	104,401	60,000	92,378	256,779
At 31 December 2016 and 1 January 2017	1,587,518	60,000	92,378	1,739,896
Addition during the Period	–	–	10	10
At 30 June 2017	1,587,518	60,000	92,388	1,739,906
Accumulated amortisation and impairment:				
At 1 January 2016	6,501	–	–	6,501
Provided for the year	105,401	–	–	105,401
Impairment loss for the year	325,616	–	–	325,616
At 31 December 2016 and 1 January 2017	437,518	–	–	437,518
Provided for the Period	61,607	1,651	40	63,298
At 30 June 2017	499,125	1,651	40	500,816
Net carrying amount:				
At 30 June 2017	1,088,393	58,349	92,348	1,239,090
At 31 December 2016	1,150,000	60,000	92,378	1,302,378

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, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively as the "Technology Know-how"), which was acquired from Bluestone Technologies (Cayman) Limited ("Bluestone"), an independent third party, in 2015.

9. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The completion date of the transaction ("Completion Date") was 16 December 2015. The cost of the Technology Know-how was determined by the Directors and represented the sum of the cash consideration, the fair value of the convertible notes (note 13) and provision for contingent consideration at the acquisition date (note 14), and the capitalised transaction costs arising directly from the acquisition of the Technology Know-how. During 2016, addition of the Technology Know-how represented the capitalisation of imputed interest of discounting the contingent consideration until the commencement of the use 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.

(c) The Directors consider that Technology Know-how and O2O distribution vending system belong to the O2O cash generating unit (the "Cash-generating Unit"), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets. The Directors conducted an impairment assessment on the Cash-generating Unit and considered that there was no impairment to the carrying amount of the Cash-generating Unit as at 30 June 2017.

(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. The Directors seek the opportunities in applying the graphene material in products other than shoes and plan to launch in the coming years.

The Directors estimated the value in use of the deferred development costs for impairment assessment purpose using discounted cash flow approach and concluded that no provision for impairment to the carrying amount of the deferred development costs was made at 30 June 2017.

10. 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.

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**16,910**	38,208
4 to 6 months	**6,903**	33,063
7 to 12 months	**18,265**	4,861
	42,078	76,132

11. TRADE AND BILLS PAYABLES

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**18,505**	36,998
Over 3 months	**19,832**	16,891
	38,337	53,889

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (31 December 2016: six months). The bills payables of RMB8,327,000 (31 December 2016: RMB14,277,000) were secured by the Group's pledged deposits amounting to RMB2,498,000 as at 30 June 2017 (31 December 2016: RMB4,283,000).

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2017 *RMB'000* (unaudited)	31 December 2016 *RMB'000* (audited)
Secured bank loans repayable within one year	**121,000**	124,000

(a) At 30 June 2017 and 31 December 2016, the bank loans were denominated in Renminbi and bore interest rates ranging from:

Six months ended 30 June 2017	4.35% – 5.06% per annum
Year ended 31 December 2016	4.60% – 6.25% per annum

(b) At 30 June 2017, the secured bank loans of the Group were secured by a pledge of the Group's buildings and land use right, amounting to approximately RMB14,046,000 (31 December 2016: RMB15,680,000) and approximately RMB33,034,000 (31 December 2016: RMB33,456,000) respectively. In addition, the bank loans were guaranteed by an independent third party and Mr. Zheng Jingdong.

13. CONVERTIBLE NOTES AND WARRANTS

Valuation of the Convertible Notes and the Warrants

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

	2015 Convertible Notes *(Note a)* *RMB'000*	2016 Convertible Notes *(Note a)* *RMB'000*	2012 Warrants *(Note b)* *RMB'000*	2015 Warrants *(Note b)* *RMB'000*	Total *RMB'000*
Fair value at 1 January 2016	91,717	–	11,146	10,444	113,307
Issued during the year	–	55,411	–	–	55,411
Fair value loss charged/(gain credited) to profit or loss during the year	25,177	22,519	(6,079)	(10,444)	31,173
Fair value at 31 December 2016 and 1 January 2017	116,894	77,930	5,067	–	199,891
Fair value gain credited to profit or loss during the Period	(17,222)	(11,482)	(5,043)	–	(33,747)
Fair value at 30 June 2017	99,672	66,448	24	–	166,144
Represented by:					
At 30 June 2017					
Current portion	–	–	24	–	24
Non-current portion	99,672	66,448	–	–	166,120
	99,672	66,448	24	–	166,144
At 31 December 2016					
Current portion	–	–	5,067	–	5,067
Non-current portion	116,894	77,930	–	–	194,824
	116,894	77,930	5,067	–	199,891

Notes:

(a) In connection with the acquisition of the Technology Know-how as explained in note 9, 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.

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

(a) *(continued)*

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

During the period ended 30 June 2017 and year ended 31 December 2016, the Convertible Notes holder did not convert any 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.

Valuation

As at 30 June 2017 and 31 December 2016, the fair values of the 2015 Convertible Notes and 2016 Convertible Notes were based on the valuations performed by Ascent Partners Valuation Service Limited ("Ascent Partners"), an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	30 June 2017	31 December 2016
2015 Convertible Notes		
Stock price (HK$)	**0.87**	0.99
Principal amount (HK$'000)	**110,880**	110,880
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**53.21**	81.76
Risk-free rate (% per annum)	**0.64**	1.07
Expected life (years)	**1.46**	1.96
Expected dividend yield (%)	**0**	0
2016 Convertible Notes		
Stock price (HK$)	**0.87**	0.99
Principal amount (HK$'000)	**73,920**	73,920
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**57.06**	80.88
Risk-free rate (% per annum)	**0.68**	1.10
Expected life (years)	**1.59**	2.09
Expected dividend yield (%)	**0**	0

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

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

The 2012 Warrants initially give the holder of the 2012 Warrants (the "Warrants Holder") the rights to subscribe for 62,026,431 new Shares. The initial subscription price of the 2012 Warrants is HK$1.53 per share (the "Subscription Price"), subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the 2012 Warrants. The subscription period of the 2012 Warrants commences from 6 months after the Issuance Date (i.e. 22 December 2012) (the "Warrants Subscription Date"), and will mature on the fifth anniversary from the Warrants Subscription Date (i.e. 22 December 2017).

Upon the occurrence of any events of defaults or certain events as mentioned in the Subscription Agreement, the Warrants Holder may elect to require the Company to redeem or repurchase all or a portion of its 2012 Warrants at a price equal to the Black Scholes Value in respect of the relevant 2012 Warrants as mentioned in the Subscription Agreement.

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

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

On 13 March 2015, the Company entered into a warrants subscription agreement (the "2015 Warrants Subscription Agreement") with two warrants subscribers (the "2015 Warrants Subscribers") in relation to the issue of a total of 88,000,000 warrants (the "2015 Warrants") to the 2015 Warrants Subscribers at the issue price of HK$0.07 per 2015 Warrant. The subscription rights attaching to the 2015 Warrants was expired on 20 October 2016.

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

(b) *(continued)*

Upon full subscription of the 2012 Warrants, a total of 63,691,570 new Shares will be issued and the net proceeds upon full subscription are approximately HK$94,900,000 (i.e. RMB82,366,000).

No warrants have been exercised during the period ended 30 June 2017 and year ended 31 December 2016.

The 2012 Warrants and 2015 Warrants (collectively as the "Warrants") are classified as derivatives and are accounted for as financial liabilities at FVTPL upon initial recognition since it contains embedded foreign exchange derivatives. The fair values of the Warrants 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.

Valuation

As at 30 June 2017 and 31 December 2016, the fair values of the 2012 Warrants were based on the valuations performed by Asset Appraisal Limited, which is an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

2012 Warrants	**30 June 2017**	31 December 2016
Stock price (HK$)	**0.59**	0.99
Exercise price (HK$)	**1.49**	1.49
Volatility (%)	**51.26**	55.71
Risk-free rate (% per annum)	**0.36**	0.85
Expected life (years)	**0.48**	0.98
Expected dividend yield (%)	**0**	0

14. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of the Technology Know-how as explained in note 9, provision for contingent consideration as at 31 December 2015 represented the acquisition-date fair value of contingent consideration of i) a maximum of approximately RMB1,289,409,836 in cash ("Cash Consideration"); and ii) the contingent convertible notes ("Contingent CNs") with principal amount of HK$73,920,000 (equivalent to approximately RMB60,590,164), which will be issued by the Company after fulfilment of certain conditions specified in the acquisition agreement signed on 14 October 2015 ("Acquisition Agreement"), as part of the consideration for the acquisition of the Technology Know-how.

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

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

Upon fulfilment of the Second Instalment Conditions, the second instalment in the amount of RMB450,000,000 shall be payable by the Company, of which (a) RMB389,409,836 shall be paid in cash within 6 months after fulfilment of the Second Instalment Conditions; and (b) RMB60,590,164 shall 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.

14. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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

Upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the third instalment in the amount of RMB270,000,000 shall 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 have been fulfilled and the Company has paid RMB389,409,836 by way of cash and RMB60,590,164 by way of issuing the 2016 Convertible Notes (refer to note 13) 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") during which 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.

14. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

Provision for contingent consideration as at 30 June 2017 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:

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
As at the beginning of the Period/year	**276,868**	1,029,203
Settlement during the Period/year	**–**	(610,420)
Fair value loss charged/(gain credited) to profit or loss during the Period/year	**18,139**	(141,915)
As at the end of the Period/year	**295,007**	276,868
Current portion included in deposits received, other payables and accruals	**(12,705)**	(8,303)
Non-current portion	**282,302**	268,565

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach. The discount rate used in the approach as at 30 June 2017 was ranging from 12.42%-12.53% (31 December 2016: 12.15%-12.69%).

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 30 June 2017, with reference to a valuation conducted by Ascent Partners.

15. SHARE CAPITAL

The details of the authorised and issued share capital of the Company are as follows:

	Number of ordinary shares of US$0.01 each	**Nominal value of ordinary shares** *US$'000*	**Nominal value of ordinary shares** *RMB'000*
Authorised:			
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2016	1,067,579,608	10,676	70,555
Issue of Shares upon exercise of share options	16,480,000	165	1,074
At 31 December 2016, 1 January 2017 and 30 June 2017	1,084,059,608	10,841	71,629

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,011**	981
Contributions to retirement benefits schemes	**16**	15
	1,027	996

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2017, the Group focused on the development of do-it-yourself ("DIY") automated vending system, the key machine for the O2O business model, for the sales and distribution of own branded automated customised graphene-based slippers ("Graphene-based Slippers") and decided to mainly use graphene-based EVA foam material for the production of Graphene-based Slippers and reduce the sales of graphene-based EVA foam material directly to customers. Besides, as some overseas customers try to scale back their shops and control the stock level due to stiff competition from online retailers, the Group recorded a decrease in revenue of approximately RMB15.5 million or 16.4% for the Period to approximately RMB79.3 million (2016: RMB94.8 million).

During the Period, the gross profit margin of the Group increased to 25.0% (2016: 24.7%), which was mainly due to the write down of inventories of approximately RMB1.4 million in the last corresponding period in comparison to a reversal of write down of inventories of approximately RMB19 thousand during the Period.

During the Period, the Group recorded a net loss of approximately RMB59.4 million (2016: RMB27.2 million), which is mainly attributable to (i) share-based payment expenses of approximately RMB4.6 million (2016: RMB11.9 million) in relation to the share options granted by the Company on 10 December 2015, 24 June 2016 and 16 December 2016; (ii) amortisation of intangible assets of approximately RMB63.3 million (2016: RMB26.4 million) in relation to the O2O distribution vending system and the acquisition of the Technology Know-how from Bluestone on 16 December 2015; (iii) fair value loss on provision for contingent consideration at FVTPL of approximately RMB18.1 million (2016: RMB11.4 million); which was offset by (iv) the fair value gain on convertible notes and warrants at FVTPL of approximately RMB33.7 million (2016: RMB22.8 million).

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2017	2016	Increase/
	RMB'000	*RMB'000*	(decrease)
	(unaudited)	(unaudited)	*% change*
Revenue (Boree Products)	**1,528**	710	115.2%
Revenue (Graphene-based Products)	**99**	–	N/A
Revenue (OEM Business)	**77,701**	94,144	(17.5%)
Revenue (Total)	**79,328**	94,854	(16.4%)

During the Period, the revenue of the Group decreased by approximately RMB15.5 million or 16.4% to approximately RMB79.3 million (2016: RMB94.8 million). Revenue from Boree Products increased by 115.2% to approximately RMB1.5 million during the Period (2016: RMB0.7 million) was due to the increase of online sales. As the slippers retail industry experiences stiff competition from online retailers, some overseas customers try to scale back their shops and control the stock level and so the orders from the OEM business declined in the Period, resulting in a decrease in revenue of 17.5% to approximately RMB77.7 million (2016: RMB94.1 million).

After the successful launch of graphene-based EVA foam material product in June 2016, though it contributed approximately RMB43.2 million sales revenue to the Group during the second half of 2016 but still under our original expectation and plan. It was mainly due to the unexpected increase in price of chemical raw materials as PRC government started to strengthen the environmental protection and control on the highly polluting industries in the first half of 2016 and the loss of target customers due to the delay of the launch time of graphene-based EVA foam material. Due to the above, the Group reconsidered the positioning of graphene application products. Due to the absence of comparable products in the existing footwear and slippers market, the launch of Graphene-based Slippers can distinguish our slippers from normal slippers and repositioned own branded slippers as slippers with distinctive functions. Besides, as the gross profit margin of Graphene-based Slippers is much higher than the graphene-based EVA foam material, the Group considered that by using graphene-based EVA foam material for the production of Graphene-based Slippers instead of direct sales to customers can generate higher profit for the Group. As a result, the Group focused on the development of DIY automated vending system for the sales and distribution of Graphene-based Slippers and the trial run of the first generation of the DIY automated vending system was completed in the first half of 2017. Therefore, the revenue of Graphene-based Products only amounted to approximately RMB99 thousand in the Period (2016: Nil).

Selling and Distribution Expenses

During the Period, selling and distribution expenses decreased by 13.1% to approximately RMB4.8 million as compared with that of last corresponding period (2016: RMB5.5 million), which accounted for 6.0% (2016: 5.8%) of the Group's revenue. The decrease was mainly attributable to less marketing activities held for the promotion of Boree Products.

General and Administrative Expenses

General and administrative expenses recorded a decrease of approximately RMB4.1 million or 15.2% to RMB22.7 million for the Period (2016: RMB26.7 million), which was mainly attributable to a decrease in share-based payment expenses of approximately RMB7.2 million in relation to the share options granted by the Company on 10 December 2015, 24 June 2016 and 16 December 2016 net off by an increase in research and development expenses of approximately RMB3.0 million during the Period.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB16.4 million (2016: RMB38.8 million), which was mainly due to the decrease in trade and bills payables. As at 30 June 2017, cash and bank balances were approximately RMB4.0 million, representing a decrease of 16.4% as compared with approximately RMB4.8 million as at 31 December 2016. As at 30 June 2017, around 63.8% and 26.3% of the Group's cash and bank balances were denominated in Renminbi and US dollars. As at 30 June 2017, the interest-bearing bank borrowings of the Group were approximately RMB121.0 million (31 December 2016: RMB124.0 million). All bank loans were denominated in Renminbi with fixed interest rates and repayable within one year.

Capital Structure

As at 1 January 2017 and 30 June 2017, the Company had 1,084,059,608 Shares in issue and a paid-up capital of approximately RMB71,629,000.

Significant Investments, Material Acquisitions and Disposals

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

Pledge of Assets

As at 30 June 2017, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB2.5 million (31 December 2016: RMB4.3 million). The bank borrowings of the Group were also secured by a pledge of the Group's buildings and land use right with a net carrying value of approximately RMB14.0 million (31 December 2016: RMB15.7 million) and approximately RMB33.0 million (31 December 2016: RMB33.5 million) respectively.

Contingent Liabilities

As at 30 June 2017 and 31 December 2016, there were no material contingent liabilities.

Foreign Exchange Risk

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

Gearing Ratio

As at 30 June 2017, the gearing ratio of the Group was 44.8% (31 December 2016: 44.6%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refer to the total liabilities minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 30 June 2017, the Group had a total of approximately 580 employees (31 December 2016: 840 employees), with total staff costs for the Period, including directors' remuneration, amounted to approximately RMB28,555,000 (2016: RMB38,588,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 30 June 2017, the Company had unutilised net proceeds from the Initial Public Offering (‘‘IPO’’) in the amount of approximately RMB3.9 million, representing approximately 1.0% of the total net proceeds from the IPO (the “Unutilised Net Proceeds”). Approximately RMB73.4 million of the Unutilised Net Proceeds were originally intended to be used to acquire other branded product business and establish flagship shops and showrooms. As the Company believed that such intended use no longer met the Group’s imminent business development needs, the Board had resolved to change the proposed use of such RMB73,443,000 and apply them for the partial settlement of the third instalment of the consideration for the acquisition of the Technology Know-how in 2016. Besides, in order to develop and strengthen the selling and distribution system, the proposed use of approximately RMB45,026,000 and RMB14,974,000 was changed from increasing production capacity and strengthening the distribution resource planning system respectively to settle the payment for the design and development of the O2O distribution vending system in 2016. In light of current market conditions of footwear industry in the PRC and the development of the Group, the Company believes that the use of the Unutilised Net Proceeds under the original intended purpose may no longer meet the Group’s imminent business development needs. In order to maximise the benefits of the Company and its shareholders, the Company may change the usage of the Unutilised Net Proceeds from the original intended purposes to working capital and other general corporate purposes of the Group. If this happens, further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules on the Stock Exchange.

The Shares were listed on the main board of the Stock Exchange on 28 January 2011 with net proceeds received by the Company from the share offering of HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilisation of the net proceeds as at 30 June 2017 is set out as follows:

Nature	Amount raised *RMB'000*	Amount utilised *RMB'000*
To increase production capacity (approximately RMB45,026,000 was changed to "To settle the payment for the design and development of the O2O distribution vending system")	135,683	135,683
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business (approximately RMB58,150,000 was changed to "To settle the payment of the acquisition of the Technology Know-how")	58,150	58,150
To strengthen design capability	19,383	15,521
To establish flagship shops and showrooms (approximately RMB15,293,000 was changed to "To settle the payment of the acquisition of the Technology Know-how")	19,383	19,383
To strengthen the distribution resource planning system (approximately RMB14,974,000 was changed to "To settle the payment for the design and development of the O2O distribution vending system")	19,383	19,383
General working capital	38,767	38,767
Total:	387,666	383,804

Use of Net Proceeds from the Issue of the 2015 Warrants

The net proceeds from the issue of 2015 Warrants of approximately HK$6,000,000 was intended to be retained in Hong Kong as general working capital of the Company and its offshore subsidiaries incorporated in Hong Kong and overseas (the "Offshore Group Members") to settle the expenses such as administrative expenses, the professional fees and the salary expenses incurred by the Offshore Group Members. The net proceeds of approximately HK$6,000,000 from the issue of 2015 Warrants had been fully utilised for general working capital of the Offshore Group Members to settle the expenses such as administrative expenses, the professional fees and the salary expenses incurred by the Offshore Group Members during the year ended 31 December 2015. All warrants from the issue of 2015 Warrants have been expired in 2016. No 2015 Warrants have been exercised since the issue date of 2015 Warrants.

BUSINESS REVIEW AND FUTURE PROSPECTS

The revenue of the Group for the Period was approximately RMB79.3 million, representing a decrease of approximately RMB15.5 million in comparison to approximately RMB94.8 million for the corresponding period in 2016, principally attributable to the decrease in the revenue of OEM business and the unexpected low contribution from Graphene-based Products. As the slippers retail industry experiences stiff competition from online retailers, both revenue of OEM business and Boree Products were seriously affected. As the Group repositioned Graphene-based Slippers as slippers with distinctive functions like sterilizing, good elasticity and tear resistant, the Group need to develop a more effective and efficient way of selling and distributing Graphene-based Slippers. As a result, the Group developed the DIY automated vending system which is the key machine for the O2O business model. The Directors consider that the introduction of the DIY automated vending system is an innovative business model which combines the new retail method and customised and personalised features. In view of these distinctive features and low operating cost, the Directors are of the view that the DIY automated vending system is an effective and efficient way of selling the Graphene-based Slippers and can maximize the profit of the Group.

In the first half of 2017, the trial run of the first generation of the DIY automated vending system was completed and based on the trial run data and feedback from customers, improvement and upgrade on the automated vending system hardware and software was made and the second generation of the DIY automated vending system was launched in July 2017. As the Group targets to greatly increase the number of DIY automated vending system and will launch marketing campaign with more resources on the Graphene-based Slippers in the second half of 2017, the Directors expect that sales of the Group will improve.

Besides, the Group would continue to develop and launch different types of graphene application products, including but not limited to sterilizing chips for air purifiers and air conditioners, pressure-sensitive lighting devices for shoes and energy storage materials for batteries and targets to develop the graphene application products for electronic equipment. In the coming years, the Group would continue deploy more resources on the research and development of graphene application products and would focus on promoting the graphene technology and the development of graphene application products in different fields in order to develop new markets and new business. The Company is now in the process of transforming from a traditional manufacturing company to a high technology company and the Board is of the view that the combination of graphene technology with conventional industry would enhance the competitiveness and long-term development of the Group and help the Group to generate more revenue and profit in the future.

OTHER INFORMATION

Interim Dividend

The Directors do not recommend the payment of any interim dividend for the Period.

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 Period, 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 comprises 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and each of them confirmed that they have complied with the required standard set out in the Model Code during the Period.

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, risk management and internal control systems, review the effectiveness of the Group's internal audit function and review and monitor appointment of the auditors and their independence.

The audit committee comprises three independent non-executive Directors, namely Mr. Chen Shaohua, Professor Zhao Jinbao and Ms. An Na, and Mr. Chen Shaohua is the chairperson of the audit committee. The unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the audit committee.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 25 August 2017

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