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China Baofeng (International) Limited

中國寶豐(國際)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2017 amounted to approximately HK$956.3 million, representing an increase of approximately 57% from HK$611.1 million for the year ended 31 December 2016.
- Profit attributable to the owners of the Company for the year ended 31 December 2017 was approximately HK$447.1 million, representing an increase of approximately 216% from HK$141.5 million the year ended 31 December 2016.
- Earnings per share for the year ended 31 December 2017 was HK78.76 cents (2016: HK27.29 cents).
- The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of China Baofeng (International) Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	NOTES	***HK$'000***	*HK$'000*
Revenue	*3*	**956,323**	611,057
Cost of sales		**(442,997)**	(392,677)
Gross profit		**513,326**	218,380
Other income		**49,373**	16,257
Selling expenses		**(24,483)**	(27,054)
Administrative and other expenses		**(69,683)**	(58,884)
Finance costs		**(9,416)**	(2,725)
Profit before taxation	*4*	**459,117**	145,974
Income tax expense	*5*	**(12,015)**	(4,429)
Profit for the year		**447,102**	141,545
Other comprehensive income (expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**68,269**	(28,573)
Total comprehensive income for the year		**515,371**	112,972
Earnings per share - Basic	*6*	**HK78.76 cents**	HK27.29 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTES	**2017** **HK$'000**	2016 *HK$'000*
Non-current Assets			
Property, plant and equipment		**253,407**	68,570
Prepaid rental expenses for photovoltaic facilities	*8*	**45,181**	–
Rental deposit		**2,013**	2,013
Deferred tax asset		**720**	978
Intangible asset		**562**	659
		301,883	72,220
Current Assets			
Inventories		**16,433**	21,615
Trade and other receivables	*9*	**855,040**	312,669
Prepaid rental expenses for photovoltaic facilities	*8*	**107,018**	55,136
Pledged bank deposits		**126,747**	–
Bank balances and cash		**60,661**	316,345
		1,165,899	705,765
Current Liabilities			
Trade and other payables	*10*	**205,022**	64,320
Provision		**10,503**	7,145
Tax payable		**4,979**	75
Bank borrowings	*11*	**275,500**	250,000
		496,004	321,540
Net Current Assets		**669,895**	384,225
Total Assets less Current Liabilities		**971,778**	456,445
Non-current Liabilities			
Deferred tax liability		**50**	88
Net assets		**971,728**	456,357
Capital and Reserves			
Share capital		**5,677**	5,677
Reserves		**966,051**	450,680
Total Equity		**971,728**	456,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

China Baofeng (International) Limited (the "**Company**") was incorporated in the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Caymans Islands. Prior to 19 February 2016, SYH Investments Limited and Mr. Jerry Strickland, an executive director of the Company until 19 February 2016, each held 37.5% of the entire issued share capital of the Company (75% in aggregate). SYH Investments Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Leung Yuen Ho, Simon, an executive director who was also the chief executive of the Company until 19 February 2016. On 19 February 2016, SYH Investments Limited and Mr. Jerry Strickland disposed of their aggregate 360,000,000 shares, representing 75% of the entire issued share capital of the Company, to Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao, the chairman and executive director of the Company. The address of principal place of business is 1301-1304, 13/F., Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are photovoltaic power generation and design and supply chain of lightings and home furnishing products.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is different from the functional currency of the Company, United States dollars ("**US$**"), as the directors of the Company consider that HK$ is more appropriate as the Company's shares are listed in Hong Kong.

2. BASIS OF PREPARATION AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the Hong Kong Institution of Certified Public Accountants ("**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised to HKFRSs issued but not yet effective

The Group has not early applied the following new and revised to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2107 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

3. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Revenue from photovoltaic power generation *(Note)*	**534,628**	198,635
Sales of lighting products	**421,695**	412,422
	956,323	611,057

Note: Revenue from photovoltaic power generation included tariff adjustment from the state grid company in the People's Republic of China (the "**PRC**") based on the prevailing nationwide government policies on renewable energy for solar power plants amounting to Renminbi ("**RMB**")340,890,000 (equivalent to HK$391,083,000 (2016: RMB126,443,000 (equivalent to HK$147,714,000)).

Information reported to the executive directors of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on the revenues and profits from different types of business divisions.

The Group's operating and reportable segments under HKFRS 8 are as follows:

(i) Photovoltaic power generation represents sales of electricity, development, construction, management and operation of a solar power plant ("**photovoltaic power generation**").

(ii) Lighting product business represents the sales of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products ("**sales of lighting products**").

No operating segments have been aggregated in arriving at the reporting segments of the Group.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 31 December 2017

	Photovoltaic power generation *HK$'000*	**Sales of lighting products** *HK$'000*	**Total** *HK$'000*
SEGMENT REVENUE			
External sales	**534,628**	**421,695**	**956,323**
Segment profit	**465,454**	**24,078**	**489,532**
Unallocated income			**1,329**
Unallocated expenses			
– Administrative and other expenses			**(22,397)**
– Finance costs			**(9,347)**
Profit before taxation			**459,117**

For the year ended 31 December 2016

	Photovoltaic power generation *HK$'000*	Sales of lighting products *HK$'000*	Total *HK$'000*
SEGMENT REVENUE			
External sales	198,635	412,422	611,057
Segment profit	156,928	10,406	167,334
Unallocated income			7
Unallocated expenses			
– Administrative and other expenses			(18,642)
– Finance costs			(2,725)
Profit before taxation			145,974

Segment profit represents the profit for the year earned by each segment and hence is arrived at without allocation of certain income and expenses (including other income, administrative and other expenses and finance costs). This is the measure reported to the CODM of the Company, for the purposes of resources allocation and assessment of segment performance.

Geographical information

The Group's operations are located in Hong Kong, the PRC (excluding Hong Kong) and North America.

Information about the Group's revenue from external customers based on the location of goods physically delivered to and location of electricity transmission and information about its non-current assets based on geographical location of the assets:

	Revenue from external customers		**Non-current assets (other than deferred tax asset)**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**–**	–	**4,761**	6,007
PRC	**534,628**	198,635	**294,040**	61,776
USA	**416,704**	405,904	**2,362**	3,459
Canada	**4,320**	6,241	**–**	–
Others	**671**	277	**–**	–
	956,323	611,057	**301,163**	71,242

4. PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration		
Salaries, wages and other benefits	**47,047**	42,233
Retirement benefits scheme contributions	**1,514**	1,037
	48,561	43,270
Allowance for doubtful debts	**–**	990
Allowance for obsolete and slow-moving inventories	**25**	244
Amortisation of intangible asset	**97**	97
Auditor's remuneration	**1,200**	1,160
Cost of inventories recognised as expenses	**333,432**	333,500
Depreciation of property, plant and equipment	**6,643**	2,580
Design and sampling costs, including staff costs of HK$4,165,000 (2016: HK$3,521,000)	**7,412**	6,384
Net foreign exchange loss	**–**	138
Operating lease rentals		
– rented premises	**14,938**	11,622
– photovoltaic facilities	**88,401**	47,511
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	120
Bank interest income	**903**	93
Net foreign exchange gain	**2,426**	–

5. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong Profits Tax	**5,606**	4,164
– PRC Enterprise Income Tax ("**EIT**")	**2,836**	–
– Withholding tax in the PRC	**2,116**	–
– Overseas taxation	**2**	2
	10,560	4,166
Under(over)provision in prior years:		
– Hong Kong Profits Tax	**(41)**	(19)
– EIT	**1,276**	–
	1,235	(19)
Deferred taxation	**220**	282
Total	**12,015**	4,429

The Company and the subsidiaries operating in Hong Kong and subject to Hong Kong Profits Tax is calculated at a tax rate of 16.5% on estimated assessable profits earned in Hong Kong for both years.

A subsidiary of the Company, being an enterprise engaged in public infrastructure projects, under the PRC Tax Law and its relevant regulations, is entitled to tax holiday of 3-year full exemption followed by 3-year 50% exemption commencing from the respective years in which operating profit was derived. The subsidiary of the Company which was engaged in the public infrastructure project has operating profit since 2016. The EIT incurred during the current year represents the taxation on the government grants received from local government by the PRC subsidiary of the Group in subsidising certain tax payments. The PRC subsidiary is entitled to an income tax rate of 15% as it is eligible as encouraged industries in Western China ("西部地區鼓勵類產業企業").

The withholding tax represented taxation recognised in respect of the dividend distributed from profit earned by a subsidiary in the PRC under the Implementation Regulation of the EIT Law of Mainland China that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$447,102,000 (2016: HK$141,545,000) and the number of 567,696,000 ordinary shares (2016: weighted average number of 518,709,000 ordinary shares) of the Company.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during the years ended 31 December 2017 and 2016.

7. DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2017 (2016: nil).

8. PREPAID RENTAL EXPENSES FOR PHOTOVOLTAIC FACILITIES

	2017	2016
	HK$'000	*HK$'000*
Amounts of prepaid rental expenses for photovoltaic facilities analysed as:		
Current	**107,018**	55,136
Non-current	**45,181**	–
	152,199	55,136

In prior year, the Group had entered into a lease agreement for photovoltaic facilities with an independent photovoltaic facilities provider for a rental period from 18 May 2016 to 17 May 2017, with the annual rental payment amounting to RMB90,000,000 (equivalent to HK$105,300,000) and the full amount was paid in advance. During the year, the Group has renewed the lease agreement for photovoltaic facilities for a rental period from 18 May 2017 to 17 May 2019 with total rental payment amounting to RMB180,000,000 (equivalent to HK$216,867,000) and the full amount was paid in advance.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**155,709**	97,073
Less: Allowance for doubtful debts	**(823)**	(990)
	154,886	96,083
Tariff adjustment receivables *(Note a)*	**676,829**	167,000
Total trade receivables and tariff adjustment receivables	**831,715**	263,083
Bill receivables	**1,307**	3,675
Advance to a photovoltaic facilities provider *(Note b)*	**–**	44,643
Other receivables and prepayment	**22,018**	1,268
	855,040	312,669

Notes:

(a) The Group's trade receivables and tariff adjustment receivables for the photovoltaic power generation are receivables from the state grid company. Generally, the trade receivables are due within 30 days from the date of billing, except for collection of the tariff adjustment receivables, which is subject to settlement by state grid company upon finalisation of the allocation of funds by relevant government authorities to the state grid company. As the collection of tariff adjustment receivables is expected in the normal operating cycle, which may be more than 1 year, they are classified as current assets.

In the opinion of the directors of the Company, the revenue recognition of tariff adjustment is proper based on their judgement and taking into account the opinion from the Group's PRC legal advisor, that the Group's operating solar power plant has qualified for registration in the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄) (the "Catalogue") and has met all the relevant requirements and conditions for the registration in the Catalogue. The directors of the Company are confident that the Group's operating solar power plant is able to be registered in the Catalogue in due course and the tariff adjustment receivables are fully recoverable upon the allocation of funds from the PRC government.

(b) The amount represented payment on behalf of a photovoltaic facilities provider for the purchase of photovoltaic facilities. The amount was non-interest bearing and was fully settled during the year.

The Group allows credit period with a range from 30 to 90 days to its customers. The following is an aged analysis of trade receivables and tariff adjustment receivables net of allowance for doubtful debts presented based on the invoice date for sales of goods and electricity transmitted dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2017	2016
	HK$'000	*HK$'000*
Not yet due *(Note)*	**676,829**	167,000
0 to 30 days	**54,243**	42,875
31 to 60 days	**31,557**	26,584
61 to 90 days	**34,855**	16,680
Over 90 days	**34,231**	9,944
	831,715	263,083

Note: The amounts represent tariff adjustments to be received based on the prevailing national government policies on renewable energy.

Before accepting any new customer, the Group assesses the credit quality of each potential customer and defines credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

10. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**67,282**	40,170
Bills payable for purchase of property, plant and equipment	**95,783**	–
Accrued sales commission	**617**	572
Construction payables	**29,918**	11,883
Other payables and accruals	**11,422**	11,695
	205,022	64,320

The credit period granted by suppliers to the Group ranged from 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**35,215**	29,926
31 to 60 days	**23,772**	6,248
61 to 90 days	**7,787**	875
Over 90 days	**508**	3,121
	67,282	40,170

11. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
The carrying amount of the secured bank borrowings that contains a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**275,500**	250,000

The bank borrowings represent bank loans denominated in HK$ and carry interests range from Hong Kong Interbank Offered Rate ("**HIBOR**") plus 1.7% per annum to HIBOR plus 2.95% per annum. The bank borrowings are secured by pledge of 252,600,000 shares of the Company held by Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao, the chairman and executive Director of the Company and pledged bank deposits amounting to RMB25,700,000 (equivalent to HK$30,964,000).

12. PLEDGE OF ASSETS

As at 31 December 2017, bank deposits of RMB25,700,000 (equivalent to HK$30,964,000) (2016: nil) are pledged to a bank to secure bank borrowings of the Group and bank deposits of RMB79,500,000 (equivalent to HK$95,783,000) (2016: nil) are pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of HK$768,000 (31 December 2016: HK$844,000) was pledged to a bank to secure banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Photovoltaic Power Generation Industry

According to the 13th Five-Year Plan of Solar Power Development (the "**13th Five-Year Plan**") issued by the National Energy Administration ("**NEA**") in December 2016, an ambitious target has been set for the photovoltaic installed capacity to reach 105 gigawatt ("**GW**") by 2020. The NEA has set out nine focused areas in relation to solar power development, being:

(1) promotion of distributive mode of photovoltaic power generation and the application of the photovoltaic power generation;

(2) improving the layout of the photovoltaic power generation plants and to develop new photovoltaic power generation technology bases;

(3) developing various ways of poverty alleviation programmes by using solar energy;

(4) promoting industrialisation of solar thermal power generation;

(5) promoting solar heating in various geographical areas in the People's Republic of China ("**PRC**");

(6) developing application of new energy microgrid;

(7) expedition of the innovation of technologies and improving the solar energy industry;

(8) improving the management of the solar energy industry and the service standards of such industry; and

(9) fostering the international cooperation in solar energy industry.

Given the various policies in the 13th Five-Year Plan favourable to the development of the photovoltaic power industry, in 2017, the cumulative photovoltaic installed capacity in the PRC has already reached 130 GW, which represents an approximately 68% increase from 2016, and the cumulative photovoltaic installed capacity already exceeded the target set by the NEA under the 13th Five-Year Plan.

Portable Lighting Products Industry

The competition of the global portable lighting products industry in 2017 remained fierce. The United States portable lighting market, which is the principal market of the lighting products of the Group, has been highly saturated with numerous firms selling a diverse range of products manufactured both domestically and internationally.

BUSINESS REVIEW

During the year under review, the core business of the Group has been integrated into two major segments, which are (i) photovoltaic power generation in the PRC (the "**Photovoltaic Power Generation Business**"); and (ii) the sales of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products (the "**Lighting Products Business**").

Attributable to the full-year contribution of the Photovoltaic Power Generation Business during the entire year 2017, the Group's operation delivered a strong improvement in both of revenue and profitability during the year ended 31 December 2017. For the year ended 31 December 2017, the Group's revenue grew by approximately 57% to approximately HK$956.3 million while profit attributable to the owners of the Company increased by approximately 216% to approximately HK$447.1 million.

Photovoltaic Power Generation Business

During the year under review, the Photovoltaic Power Generation Business continued to develop and brought profits to the Group. The photovoltaic project of the Group in Yinchuan City (the "**Yinchuan Project**"), Ningxia Hui Autonomous Region ("**Ningxia**"), the PRC, was operating at a maximum output capacity of 350 megawatt for the year ended 31 December 2016 with major equipment provided by Yinchuan Binhe New District Investment and Development (Group) Co., Ltd.* (銀川濱河新區投資發展(集團)有限公司) ("**YCB Investment**"), a state-controlled limited liability company in the PRC, through lease arrangement. In 2017, Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司), a wholly-owned subsidiary of YCB Investment, continued to lease the major equipment to the Group for a term of two years. In order to fully utilise the 390 megawatt capacity granted by the Ningxia branch company of the State Grid Corporation of China and for preparation of the continuing development in the Photovoltaic Power Generation Business, the Group has commenced the development of its own infrastructure for additional 30 megawatt output capacity of the photovoltaic power generation since December 2017, and it is expected that in 2018, the photovoltaic power generation output capacity from Yinchuan Project would reach 380 megawatt.

As confirmed by the State Grid Corporation of China, for the year ended 31 December 2017, the Group has generated an aggregate of 647.2 million kilowatt-hour ("**kWh**") power and the Photovoltaic Power Generation Business continued to be the main source of the revenue of the Group, accounting for approximately 56% (2016: 33%) of the Group's total revenue for the year. In addition, the Photovoltaic Power Generation Business continued to be the key growth driver of the profit of the Group, contributing approximately 95% of the Group's total segment profit for the year ended 31 December 2017.

The Group's revenue from Photovoltaic Power Generation Business for the year ended 31 December 2017 was approximately HK$534.6 million, which represents an increase of approximately 169% from the revenue generated for the year ended 31 December 2016 (2016: HK$198.6 million). The segment profit margin of Photovoltaic Power Generation Business was approximately 87.1% for the year ended 31 December 2017 (2016: 79.0%) and the segment profit increased approximately 197% to approximately HK$465.5 million (2016: HK$156.9 million).

Lighting Products Business

The Group's revenue from the Lighting Products Business for the year ended 31 December 2017 was approximately HK$421.7 million (2016: HK$412.4 million), contributing approximately 44% (2016: 67%) of the Group's total revenue, and representing a slight increase of 2% from the revenue generated in the corresponding period in 2016. Despite the keen competition in the principal market of the lighting products of the Group, with the Company's continuing efforts in cost control and improvement of the operating efficiency, the segment profit margin of Lighting Products Business increased to approximately 5.7% for the year ended 31 December 2017 from 2.5% in corresponding period in 2016 and the segment profit increased approximately 131% to approximately HK$24.1 million (2016: HK$10.4 million).

OUTLOOK AND PROSPECTS

Photovoltaic Power Generation Business

Driven by the strong incentive of the PRC Government to promote the use of renewable energy in accordance with the 13th Five-Year Plan, the photovoltaic power generation industry in the PRC continued to be under rapid development for the year ended 31 December 2017.

Given that (i) the additional output capacity of the Photovoltaic Power Generation Business; (ii) favourable policies of the PRC Government under the 13th Five-Year Plan; and (iii) the Group will continue to enjoy the favourable policy of the PRC Government of 100% exemption of enterprise income tax in the first three years since the commencement of operation of the power plants and 50% exemption in the following three years, the Board is positive on the prospect of the Photovoltaic Power Generation Business in 2018.

In 2018, the Group will continue to leverage the knowledge and experiences of its management to evaluate and seek for appropriate opportunities for the further expansion of the Group's established Photovoltaic Power Generation Business and identify opportunities with reasonable returns in the photovoltaic power generation industry. The Group intends to focus on and further direct resources to develop its Photovoltaic Power Generation Business in accordance with the national policies. The Group will continue to look for opportunities to further strengthen its capabilities and expertise in this segment, including but not limited to participation in the photovoltaic poverty alleviation program and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Board believes that Photovoltaic Power Generation Business will continue to be the Group's main growth driver, and the strategic development of the Photovoltaic Power Generation Business is for the benefit of the shareholders of the Company (the "**Shareholders**") as a whole.

Lighting Products Business

Despite the Group's lighting products segment recorded an improvement in revenue and profitability for the year ended 31 December 2017, it is expected that the Lighting Products Business of the Group will be adversely affected by the intensified competition in its principal markets and rising costs of labour and raw materials.

Accordingly, in 2018, the Group will continue to adopt the cost control strategy to try to maintain the profitability of its Lighting Products Business. In case the market competition continues to intensify, the Group would deploy its resources efficiently and shift the focus on other segments of the Group so that the Group will generate long term return to the Shareholders.

FINANCIAL REVIEW

Segment Information

The Group reported its financial information by two segments: (i) photovoltaic power generation in the PRC and (ii) sales of lighting products including portable lighting products, shades for the lamps and furniture sets and other home accessory products. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the years ended 31 December 2016 and 2017:

	For the year ended 31 December							
	2017				2016			
	Revenue *(HK$'000)*	**% of Revenue**	**Segment profit**	**Segment profit margin** *(%)*	Revenue *(HK$'000)*	% of Revenue	Segment profit	Segment profit margin *(%)*
Photovoltaic Power Generation	**534,628**	**56**	**465,454**	**87.1**	198,635	33	156,928	79.0
Sales of lighting products	**421,695**	**44**	**24,078**	**5.7**	412,422	67	10,406	2.5
Total	**956,323**	**100**	**489,532**	**51.2**	611,057	100	167,334	27.4

Revenue

During the year ended 31 December 2017, revenue of the Group was derived from photovoltaic power generation and sales of lighting products amounting to approximately HK$956.3 million, representing an increase of approximately 57% from approximately HK$611.1 million for the year ended 31 December 2016. The significant increase in revenue was mainly attributable to the full-year contribution of the Photovoltaic Power Generation Business, which contributed approximately HK$534.6 million or 56% to the Group's revenue for the year.

Gross profit and gross profit margin

During the year ended 31 December 2017, the gross profit of the Group increased by approximately 135% from approximately HK$218.4 million for the year ended 31 December 2016 to approximately HK$513.3 million. The gross profit margin of the Group improved from approximately 35.7% for the year ended 31 December 2016 to approximately 53.7% for the year ended 31 December 2017. The significant increase in gross profit and gross profit margin of the Group for the year was attributable to the full-year contribution of the Photovoltaic Power Generation Business and the gross profit margin of which was significantly higher compared with the Lighting Products Business.

Operating costs

During the year ended 31 December 2017, the total operating costs increased to approximately HK$94.2 million, representing an increase of approximately 10% from HK$85.9 million for the year ended 31 December 2016. The increase in operating costs was primarily due to the full-year operation of the Photovoltaic Power Generation Business.

Finance costs

The Group recorded finance costs amounting to approximately HK$9.4 million for the year ended 31 December 2017 (2016: HK$2.7 million). The Group incurred such finance costs during the year mainly due to the interest expenses on bank borrowings, the proceeds of which were primarily used to support the development of the Photovoltaic Power Generation Business and general working capital for the Group's corporate office.

Profit attributable to owners of the Company

Profit attributable to owners of the Company was approximately HK$447.1 million for the year ended 31 December 2017, increased by approximately 216% from approximately HK$141.5 million profit for the year ended 31 December 2016.

The Group's net profit margin rose from 23.2% for the year ended 31 December 2016 to 46.8% for the year ended 31 December 2017. Earnings per share increased from HK27.29 cents per share for the year ended 31 December 2016 to HK78.76 cents per share for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, cash and cash equivalents of the Group were approximately HK$60.7 million, representing an approximately decrease of 81% from approximately HK$316.3 million as at 31 December 2016. This was mainly due to the investment in additional output capacity of the Yinchuan Project and cash pledged for Loan B (as defined below), Loan C (as defined below) and bills payable.

For the year ended 31 December 2017, the Group's primary sources of funding included cash generated from its operating activities and bank borrowings.

As at 31 December 2017, the Group had total bank borrowing of HK$275.5 million (2016: HK$250 million). The Group's current ratio (current asset divided by current liabilities) was 2.4 as at 31 December 2017, which improved from 2.2 as at 31 December 2016. Considering the Group's current level of cash and bank balances and expected improvement in cash inflow from operation, the Board is confident that the Group will have sufficient resources to meet its financial needs for its current operations. Since photovoltaic projects require substantial capital investments for developing and constructing photovoltaic power plants at initial stage, the Group may require additional funding in case of pursuing new business opportunities.

DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2017 (2016: nil).

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of (i) net debt, which includes the bank borrowings, bills payable, net cash and cash equivalents and pledged deposits, and (ii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 31 December 2017, net gearing ratio was 19% (31 December 2016: net cash). This ratio is based on bank borrowings and bills payable less cash and cash equivalents and pledged bank deposits divided by total equity.

As at 31 December 2017, the interest-bearing bank borrowings of the Group that will become due within a year was HK$275.5 million (2016: HK$250.0 million). All of the interest-bearing bank borrowings of the Group as at 31 December 2017 were in HK dollars and among which HK$250.0 million carries interest at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.95% per annum ("**Loan A**") (2016: HIBOR plus 3% per annum), HKD19.5 million carries interest at HIBOR plus 1.7% per annum ("**Loan B**") and HK$6.0 million carries interest at HIBOR plus 2.0% per annum ("**Loan C**"). As of 31 December 2017 and 31 December 2016, Loan A was secured by a pledge of 252,600,000 ordinary Shares of HK0.01 each held by Fung Teng Enterprises Limited ("**Fung Teng**"), which is wholly-owned by Mr. Dang Yanbao, the Chairman and executive Director of the Company. Loan B and Loan C were raised during the year ended 31 December 2017 which were secured by a bank deposit of RMB20,000,000 (equivalent to HK$24,096,000) and RMB5,700,000 (equivalent to HK$6,868,000), respectively, as at 31 December 2017. As at 31 December 2017, bills payable amounting to RMB79,500,000 (equivalent to HK$95,783,000) (2016: nil) were secured by bank deposits of RMB79,500,000 (equivalent to HK$95,783,000).

As at 31 December 2017, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

The Board reviews the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the management of the Group, the Group will balance its overall capital structure accordingly.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS

The Group has commenced the development of its own infrastructure for additional 30 megawatt output capacity of the photovoltaic power generation since December 2017 and as at 31 December 2017, RMB131.5 million has been invested in this regard. No revenue nor profits was recognized during the year ended 31 December 2017 for such investment but it is expected that such investment would contribute to the revenue of the Group for the year ending 31 December 2018.

Save as disclosed, the Group did not have any other significant investments as at 31 December 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the positive development of the Photovoltaic Power Generation Business, the Group may from time to time consider appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 31 December 2017. In the event that the Group is engaged in any plan for material investments or capital assets, the Company will make announcement(s) and comply with relevant Listing Rules as and when appropriate.

MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2017, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

CHARGES ON ASSETS

As at 31 December 2017, bank deposits of RMB25,700,000 (equivalent to HK$30,964,000) (2016: nil) are pledged to a bank to secure bank borrowings of the Group and bank deposits of RMB79,500,000 (equivalent to HK$95,783,000) (2016: nil) are pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of HK$768,000 (31 December 2016: HK$844,000) was pledged to a bank to secure banking facilities granted to the Group.

As at 31 December 2017, the Group had a general banking facility which was secured by the Group's land and building with carrying amount of approximately HK$768,000 (2016: HK$844,000).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2017, a significant part of the revenue of the Group was denominated in Renminbi while the Group has transactions invoiced in US dollars and bank loans drawn down in HK dollars, and accordingly the Group was exposed to foreign exchange risk.

Save as disclosed herein, the amounts of other foreign currencies involved in the Group's operation for the year ended 31 December 2017 were insignificant. The Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the year ended 31 December 2017. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitment of approximately HK$44.8 million (2016: HK$58.8 million) in respect of the acquisition of property, plant and equipment contracted but not provided for.

GROUP'S EMOLUMENT POLICY

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments, if any, are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

Each Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the remuneration committee of the Board. As at 31 December 2017, the Group employed a total of nine Directors and 206 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$48.6 million for the year ended 31 December 2017 (2016: HK$43.3 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance and provident fund. None of the Directors entered into any arrangement under which a Director has waived or agreed to waive any emoluments.

The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company (the "**Shares**") with a view to rewarding them for their contributions to the Group and giving incentives to them for optimising their future contributions to the Group. Up to the date of this announcement, no share option has been granted under such share option scheme.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

On 23 December 2016, Fung Teng, a company wholly-owned by Mr. Dang Yanbao, the Chairman, executive Director and a controlling shareholder of the Company, pledged 252,600,000 ordinary Shares in the issued share capital of the Company (the "**Pledged Shares**") in favour of Bank of Shanghai (Hong Kong) Limited (the "**Lender**") as a security for a revolving credit facility up to a maximum aggregate amount of HK$250.0 million provided to the Company, by the Lender. During the year ended 31 December 2017, the said pledge was not released.

The Pledged Shares represent in aggregate approximately 44.50% of the issued share capital of the Company as at 31 December 2017. As at 31 December 2017, Fung Teng was interested in 360,000,000 Shares, representing approximately 63.41% of the issued share capital of the Company.

CORPORATE GOVERNANCE REPORT

The Company endeavors to maintain a high standard of corporate governance for the enhancement of its Shareholders' value and provide transparency, accountability and independence. The Company has complied with the required code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the year ended 31 December 2017, except for the following:

Under code provision C.2.5 of the Corporate Governance Code, an issuer should have an internal audit function. For the year ended 31 December 2017, the Company engaged an external accounting firm in the PRC to carry out internal audit to a subsidiary of the Company involving in the Photovoltaic Power Generation Business, nonetheless, the Company did not have an internal audit function for the entire Group for the year ended 31 December 2017. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and close supervision by the management can maintain sufficient risk management and internal control of the Group. However, the Board will review the need to set up an internal audit function from time to time and may set up an internal audit team if the need arises.

Save as disclosed above, the Board considers that the Company had complied with the code provisions set out in the Corporate Governance Code of the Listing Rules during the year ended 31 December 2017.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

During the year ended 31 December 2017, the Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon specific enquiry, each Director confirms that during his tenure in the year ended 31 December 2017, he had fully complied with the required code of conduct and there was no event of non-compliance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares during the year ended 31 December 2017.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference which have been updated from time to time to align with the code provisions set out in the Corporate Governance Code and the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. As at 31 December 2017, the Audit Committee comprises three independent non-executive Directors, namely Dr. Tyen Kan Hee, Anthony (chairman of the Audit Committee), Mr. Xia Zuoquan and Mr. Guo Xuewen. The consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 have been reviewed by the Audit Committee.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2017

As at the date of this announcement, the Group has no material events after the year ended 31 December 2017.

SCOPE OF WORKS OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profits and loss and other comprehensive income and related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2018 ANNUAL GENERAL MEETING

The annual general meeting of the Company ("**Annual General Meeting**") is to be held on 25 May 2018. For the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM, the details of the closure of register of member of the Company and the latest time to lodge transfer documents with the Company's share register is set forth as follows:

Book close dates for the 2018 AGM (both days inclusive)	Monday, 21 May 2018 to Friday, 25 May 2018
Latest time to lodge transfer documents with the Company's share registrar	Friday, 18 May 2018, 4:00 p.m.
Name and address of the Company's share registrar	Union Registrars Limited Suites 3301-4, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

This announcement of the annual results for the year ended 31 December 2017 is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.baofengintl.com. The annual report for the year ended 31 December 2017 of the Company containing all the information required by the Listing Rules will be despatched to Shareholders and published on the aforesaid websites in due course.

By Order of the Board
China Baofeng (International) Limited
Dang Yanbao
Chairman and Executive Director

Hong Kong, 23 March 2018

As at the date of this announcement, the executive Directors of the Company are Mr. Dang Yanbao, Mr. Dang Zidong, Mr. Liu Yuanguan, Mr. Gao Jianjun and; the non-executive Directors of the Company are Mr. Cheng Hoo and Mr. Chung Kin Shun, Jimmy and the independent non-executive Directors of the Company are Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen.

* *For identification purpose only*