BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
寶峰時尚國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1121)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017, together with the comparative figures for 2016 and the relevant explanatory notes as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	*4*	**125,501**	215,831
Cost of sales		**(96,994)**	(140,529)
GROSS PROFIT		**28,507**	75,302
Other net income and gains	*4*	**1,691**	3,506
Selling and distribution expenses		**(8,949)**	(8,591)
General and administrative expenses		**(39,807)**	(51,916)
Amortisation of intangible assets	*10*	**(128,261)**	(105,401)
Impairment loss on intangible assets	*10*	**(537,286)**	(325,616)
Impairment loss on non-current assets held for sale	*12*	**(23,244)**	–
Finance costs	*5*	**(6,050)**	(7,933)
Fair value gain/(loss) on convertible notes and warrants at fair value through profit or loss	*15*	**50,002**	(41,617)
Gain on derecognition of warrants at fair value through profit or loss		**5,067**	10,444
Fair value gain on provision for contingent consideration at fair value through profit or loss	*16*	**219,888**	141,915
LOSS BEFORE TAX	*6*	**(438,442)**	(309,907)
Income tax credit/(expense)	*7*	**3,072**	(7,671)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(435,370)**	(317,578)
LOSS PER SHARE	*9*		
– Basic (RMB)		**(0.40)**	(0.29)
– Diluted (RMB)		**(0.40)**	(0.29)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**41,416**	82,010
Prepaid land lease payments		**26,954**	32,640
Intangible assets	*10*	**636,981**	1,302,378
		705,351	1,417,028
CURRENT ASSETS			
Inventories		**36,227**	24,922
Trade and bills receivables	*11*	**29,806**	76,132
Prepayments, deposits and other receivables		**10,321**	7,437
Pledged deposits		**2,127**	4,283
Cash and bank balances		**5,888**	4,789
		84,369	117,563
Assets classified as held for sale	*12*	**26,000**	–
		110,369	117,563
CURRENT LIABILITIES			
Trade and bills payables	*13*	**48,001**	53,889
Deposits received, other payables and accruals		**39,925**	33,518
Interest-bearing bank borrowings	*14*	**117,000**	124,000
Warrants	*15*	**–**	5,067
Convertible notes	*15*	**87,002**	–
Income tax payable		**2,216**	8,285
		294,144	224,759
NET CURRENT LIABILITIES		**(183,775)**	(107,196)
TOTAL ASSETS LESS CURRENT LIABILITIES		**521,576**	1,309,832
NON-CURRENT LIABILITIES			
Convertible notes	*15*	**57,820**	194,824
Provision for contingent consideration	*16*	**47,272**	268,565
Deferred tax liability		**3,071**	3,071
		108,163	466,460
NET ASSETS		**413,413**	843,372
EQUITY			
Share capital		**71,629**	71,629
Reserves		**341,784**	771,743
TOTAL EQUITY		**413,413**	843,372

NOTES:

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The Group is engaged in the manufacture and sale of slippers, sandals, casual footwear and graphene-based ethylene-vinyl acetate ("EVA") foam material and slippers.

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

2. BASIS OF PREPARATION

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

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB183,775,000. The Group incurred a loss for the year of RMB435,370,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

2. BASIS OF PREPARATION *(continued)*

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

2. Convertible notes with principal amounts of HK$110,880,000 and HK$73,920,000 respectively were issued to Bluestone Technologies (Cayman) Limited ("Bluestone") and will be matured on 16 December 2018 and 2 February 2019 (the "Maturity Dates") respectively. Pursuant to the memorandum signed by Bluestone on 28 March 2018, Bluestone is willing to extend the date of repayment for 1 year from the Maturity Dates in circumstances that i) the convertible notes are not converted into conversion shares before the Maturity Dates; ii) the conversion price per conversion share is higher than the share price of the Company on the Maturity Dates; and iii) Bluestone selects the option to request the Company to repay the principal amount of such convertible notes.

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

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

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

The application of the new and revised IFRSs 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.

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, impairment loss on intangible assets and non-current assets held for sale, 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, cash and bank balances and assets classified as held for sale as these assets are managed on a group basis.

Segment liabilities exclude trade and bills payables, certain other payables and accruals, 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.

3. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

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

3. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	Boree Products *RMB'000*	Graphene-based Products *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	2,698	43,171	169,962	215,831
Segment results	(3,948)	27,133	43,526	66,711
Reconciliation:				
Interest income				1,072
Other unallocated net income and gains				2,434
Corporate and other unallocated expenses				(51,916)
Amortisation of intangible assets				(105,401)
Impairment loss on intangible assets				(325,616)
Fair value loss on convertible notes and warrants at FVTPL				(41,617)
Gain on derecognition of warrants at FVTPL				10,444
Fair value gain on provision for contingent consideration at FVTPL				141,915
Finance costs				(7,933)
Loss before tax				(309,907)
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***

	2017	2016
	RMB'000	*RMB'000*
PRC (principal place of operations)	**5,664**	49,369
United States of America ("US")	**109,394**	162,750
South America	**551**	402
Europe	**2,058**	335
South East Asia	**2,353**	471
Other countries	**5,481**	2,504
	125,501	215,831

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

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

	2017	2016
	RMB'000	*RMB'000*
PRC (principal place of operations)	**705,345**	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 years contributing over 10% of the total sales of the Group are as follows:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**75,643**	69,330
Customer B*	**7,401**	22,359
Customer C*	**736**	32,717
Customer D*	**10,168**	51,185

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

Except Customer C in the Boree Products and Graphene-based Products segments, the Group's other 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:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**125,501**	215,831
Other net income and gains		
Interest income	**83**	1,072
Sales of scrap material	**300**	646
Sales of semi-products	**54**	–
Sales of gas emission quota	**412**	–
Rental income	**382**	515
Subsidy income*	**450**	190
Exchange gain	**–**	917
Others	**10**	166
	1,691	3,506

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

5. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans repayable within five years	**6,050**	7,933

6. LOSS BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold*	**96,896**	138,526
Depreciation*	**6,467**	7,922
Amortisation of prepaid land lease payments	**845**	845
Amortisation of intangible assets	**128,261**	105,401
Minimum lease payments under operating leases in respect of land and buildings*	**867**	475
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**42,578**	47,844
Equity-settled share option expenses	**5,411**	20,712
Staff welfares	**934**	275
Contributions to retirement benefits schemes	**3,126**	1,478
	52,049	70,309
Auditors' remuneration:		
Audit service	**920**	1,103
Non-audit service	**251**	–
	1,171	1,103
Impairment loss on intangible assets	**537,286**	325,616
Impairment loss on non-current assets held for sale	**23,244**	–
Impairment loss on other receivables	**–**	165
(Reversal of) impairment loss on trade receivables	**(737)**	2,065
Write-down of inventories	**98**	2,003
Loss on disposals of items of property, plant and equipment	**162**	6
Exchange loss/(gain), net	**877**	(917)
Research and development costs**	**6,358**	5,436

* *The cost of inventories sold for the year ended 31 December 2017 includes approximately RMB28,677,000 (2016: RMB37,202,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

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

7. INCOME TAX CREDIT/(EXPENSE)

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

	2017	2016
	RMB'000	*RMB'000*
Current – PRC Enterprise Income Tax		
Charge for the year	**2,209**	7,569
(Over)/under-provisions in prior years	**(5,281)**	102
Total tax (credit)/charge for the year	**(3,072)**	7,671

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2017 and 2016 and since the end of the reporting period.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the year attributable to owners of the Company of approximately RMB435,370,000 (2016: RMB317,578,000) and the weighted average number of ordinary shares of 1,084,059,608 (2016: 1,080,827,914) in issue during the year.

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

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2016 included the 1,067,579,608 ordinary shares in issue as at 1 January 2016, and 16,200,000 ordinary shares and 280,000 ordinary shares issued on 9 March 2016 and 17 October 2016 respectively in respect of exercise of share options.

During the years ended 31 December 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.

10. INTANGIBLE ASSETS

	Technology Know-how	O2O distribution vending system	Deferred development costs	Total
	(Notes a,c)	*(Notes b,c)*	*(Note d)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2016	1,483,117	–	–	1,483,117
Addition	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	–	–	150	150
At 31 December 2017	1,587,518	60,000	92,528	1,740,046
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 year	123,214	4,954	93	128,261
Impairment loss for the year	477,786	–	59,500	537,286
At 31 December 2017	1,038,518	4,954	59,593	1,103,065
Net carrying amount:				
At 31 December 2017	549,000	55,046	32,935	636,981
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 "Technology Know-how"), which was acquired from Bluestone, an independent third party, in 2015.

10. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(a) *(continued)*

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

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

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

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

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

The Directors conducted an impairment assessment on the O2O Unit and considered that provision for impairment to the carrying amount of the O2O Unit of RMB477,786,000 (2016: RMB325,616,000) was made as at 31 December 2017, with reference to a valuation of the value-in-use of the O2O Unit conducted by an independent professional valuer, Ascent Partners Valuation Service Limited ("Ascent Partners"), using multi-period excess earnings method (2016: discounted cash flow approach). The multi-period excess earnings method is based on a discount rate of approximately 23.69% and financial forecasts approved by the Directors. Assumption of budgeted sales was based on estimated daily average sales of slippers from O2O distribution vending system and expected growth rate. Other key assumptions for the multi-period excess earnings method relate to the estimation of earnings which include estimated gross profit margin, operating expenses and working capital requirements, such estimation is based on the expected and forecasted performance generated from the past performance of the O2O Unit and management's expectations for the market development.

10. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

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

The Directors conducted an impairment assessment on the Sterilizing Chips with reference to a valuation of the value-in-use of the Sterilizing Chips conducted by an independent professional valuer, Peak Vision Appraisals Limited, using discounted cash flow approach (2016: based on the management's own estimate of the value-in-use). The discounted cash flow approach is based on a post-tax discount rate of approximately 19.19% and cash flow projections prepared from financial forecasts approved by the Directors. Key assumptions for the discounted cash flow approach relate to the estimation of cash inflows/outflows from the development projects which include estimated gross profit margin, operating expenses and working capital requirements, such estimation is based on the expected and forecasted performance generated from the use of the Sterilizing Chips and management's expectations for the market development.

The Directors conducted an impairment assessment on Other Deferred Development Costs and considered that the future economic benefits attributable to Other Deferred Development Costs is uncertain and provision for impairment of RMB59,500,000 (2016: Nil) was made as at 31 December 2017.

11. TRADE AND BILLS RECEIVABLES

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

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

	2017 ***RMB'000***	2016 *RMB'000*
Within 3 months	**19,703**	38,208
4 to 6 months	**786**	33,063
7 to 12 months	**6,405**	4,861
Over 1 year	**2,912**	–
	29,806	76,132

12. ASSETS CLASSIFIED AS HELD FOR SALE

On 10 October 2017, the Group entered into a sales and purchase agreement with an independent third party at a consideration of RMB26,000,000 to dispose of certain property, plant and equipment with land use right located in PRC. In accordance with IFRS 5, the disposal assets were reclassified as assets held for sale. The Directors consider the completion of the disposal to be within 1 year.

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

	2017
	RMB'000
Property, plant and equipment	**44,318**
Prepaid land lease payments	**4,926**
Impairment loss for the year	**(23,244)**
	26,000

The Group has pledged the land use right with a net carrying amount of approximately RMB4,926,000 (2016: Nil) to secure general banking facilities granted to the Group.

13. TRADE AND BILLS PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**29,396**	36,998
Over 3 months	**18,605**	16,891
	48,001	53,889

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2016: six months). Bills payable of RMB7,090,000 (2016: RMB14,277,000) were secured by the Group's pledged deposits amounting to RMB2,127,000 as at 31 December 2017 (2016: RMB4,283,000).

14. INTEREST-BEARING BANK BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Secured bank loans repayable within one year	**117,000**	124,000

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

Year ended 31 December 2017	4.35% – 5.00% per annum
Year ended 31 December 2016	4.60% – 6.25% per annum

(b) At 31 December 2017, the secured bank loans of the Group were secured by a pledge of certain of the Group's buildings and land use rights, with carrying amounts of approximately RMB12,415,000 (2016: RMB15,680,000) and approximately RMB32,611,000 (2016: RMB33,456,000) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party and a Director.

15. CONVERTIBLE NOTES AND WARRANTS

Valuation of the Convertible Notes and the Warrants

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

	2015 Convertible Notes *(Note a)* *RMB'000*	**2016 Convertible Notes** *(Note a)* *RMB'000*	**2012 Warrants** *(Note b)* *RMB'000*	**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
Derecognition during the year	–	–	–	(10,444)	(10,444)
Fair value loss charged/(gain credited) to profit or loss during the year	25,177	22,519	(6,079)	–	41,617
Fair value at 31 December 2016 and 1 January 2017	116,894	77,930	5,067	–	199,891
Derecognition during the year	–	–	(5,067)	–	(5,067)
Fair value gain credited to profit or loss during the year	(29,892)	(20,110)	–	–	(50,002)
Fair value at 31 December 2017	87,002	57,820	–	–	144,822
Represented by:					
2017					
Current portion	87,002	–	–	–	87,002
Non-current portion	–	57,820	–	–	57,820
	87,002	57,820	–	–	144,822
2016					
Current portion	–	–	5,067	–	5,067
Non-current portion	116,894	77,930	–	–	194,824
	116,894	77,930	5,067	–	199,891

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes:

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

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

During the years ended 31 December 2017 and 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.

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

(a) *(continued)*

Valuation

As at 31 December 2017 and 2016, the fair values of the Convertible Notes were based on the valuations performed by Ascent Partners and calculated using the binomial model and the inputs into the model were as follows:

	2017	2016
2015 Convertible Notes		
Stock closing price (HK$)	**0.52**	0.99
Principal amount (HK$'000)	**110,880**	110,880
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**84.94**	81.76
Risk-free rate (% per annum)	**1.04**	1.07
Expected life (years)	**0.96**	1.96
Expected dividend yield (%)	**0**	0
2016 Convertible Notes		
Stock closing price (HK$)	**0.52**	0.99
Principal amount (HK$'000)	**73,920**	73,920
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**79.09**	80.88
Risk-free rate (% per annum)	**1.07**	1.10
Expected life (years)	**1.09**	2.09
Expected dividend yield (%)	**0**	0

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

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

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

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

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

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

On 13 March 2015, the Company entered into a new 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 expired on 20 October 2016.

15. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

(b) *(continued)*

No warrants have been exercised during both years ended 31 December 2016 and 2017.

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 31 December 2016, the fair value of the 2012 Warrants was based on the valuation 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:

	2016
2012 Warrants	
Stock closing price (HK$)	0.99
Exercise price (HK$)	1.49
Volatility (%)	55.71
Risk-free rate (% per annum)	0.85
Expected life (years)	0.98
Expected dividend yield (%)	0

16. PROVISION FOR CONTINGENT CONSIDERATION

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

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

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

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

16. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

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

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

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

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

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

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

16. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

Provision for contingent consideration as at 31 December 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:

	2017	2016
	RMB'000	*RMB'000*
As at the beginning of the year	**276,868**	1,029,203
Amount incurred during the year	**(8,678)**	–
Settlement during the year	**–**	(610,420)
Fair value gain credited to profit or loss during the year	**(219,888)**	(141,915)
As at the end of the year	**48,302**	276,868
Current portion included in deposits received, other payables and accruals	**(1,030)**	(8,303)
Non-current portion	**47,272**	268,565

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach (2016: discounted cash flow approach). The inputs into the approach as at 31 December 2017 and 2016 were as follows:

	2017	2016
Discount rate	**12.32%-12.54%**	12.15%-12.69%

Note: All Contingent CNs have already been issued as at 31 December 2016.

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

The Directors conducted a fair value assessment of the provision for contingent consideration as at 31 December 2017, with reference to a valuation conducted by Ascent Partners.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by Confucius International CPA Limited, the Company's auditor, on the consolidated financial statements of the Group for the year ended 31 December 2017:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty in relation to going concern

We draw attention to note 3 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB435,370,000 for the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB183,775,000. As explained in note 3 to the consolidated financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the decrease in the revenue of OEM business and the unexpected low contribution from Graphene-based Products, the revenue of the Group amounted to approximately RMB125.5 million in 2017 representing a decrease of 41.9% in comparison to approximately RMB215.8 million in last year. As the slippers retail industry experiences stiff competition from online retailers, revenue of OEM business was seriously affected, resulting in a decrease of the revenue of approximately RMB50.1 million or 29.5% to approximately RMB119.9 million for the year. Besides, as the PRC government started to strengthen the environmental protection and control on the highly polluting industries in 2016, many chemical raw materials suppliers closed down. The prices of chemical raw materials and the cost of consigned processing by sub-contractors increased significantly in 2017 which caused the cost of graphene-based EVA foam material to increase substantially. Besides, due to tightening environmental protection and control by the PRC government, the Environmental Protection Bureau imposed a limit on the production scale of foam material of our existing production site. As the annual production volume of foam material was restricted and the costs of various chemical raw materials kept increasing, the Directors considered that the Group should focus on the direction of producing own branded automated customised graphene-based slippers ("Graphene-based Slippers") with higher gross profit margin instead of graphene-based EVA foam material in 2017. As such, the Group repositioned the graphene-based products and mainly use graphene-based EVA foam material to produce Graphene-based Slippers and developed the O2O business model for the sales and distribution of Graphene-based Slippers during the year. As the time used to improve and upgrade the do-it-yourself ("DIY") automated vending system, the key machine for the O2O business model, was longer than expected, the revenue of Graphene-based Products only amounted to approximately RMB2.1 million for the year (2016: RMB43.2 million).

During the year, the gross profit margin of the Group decreased to 22.7% (2016: 34.9%) which was mainly attributable to the significant increase in cost of chemical raw materials.

During the year, the Group recorded a net loss of approximately RMB435.4 million (2016: RMB317.6 million), which is mainly attributable to (i) amortisation of intangible assets of approximately RMB128.3 million (2016: RMB105.4 million) and impairment loss on intangible assets of approximately RMB537.3 million (2016: RMB325.6 million); and offset by (ii) the fair value gain on convertible notes and warrants at FVTPL of approximately RMB55.1 million (2016: fair value loss of RMB31.2 million) and (iii) the fair value gain on provision for contingent consideration at FVTPL of approximately RMB219.9 million (2016: RMB141.9 million).

The amount of impairment loss of approximately RMB477.8 million in relation to the acquisition of the Technology Know-how from Bluestone in 2015, was made with reference to a valuation report conducted by an independent professional valuer based on various information provided by the management including but not limited to detailed business plan, financial model and actual sales track records. The Board has reviewed the available information and supporting documents and agreed with the position of the management of the Company that the amount of impairment was adequate.

During last year, the Group engaged several independent third parties in the research and development of manufacturing and application technology of graphene material on sterilizing chips for air purifiers and air conditioners, energy storage materials for batteries and pressure-sensitive lighting devices for shoes and recognised the related deferred development costs as intangible assets. Several invention and utility model patents arising from the deferred development costs were either obtained or under application in the PRC and the sterilizing chips for air purifiers and air conditioners would be launched in the first half of 2018, as a result, the Directors are of the view that future economic benefits will be generated from such development costs. For the energy storage materials for batteries and pressure-sensitive lighting devices for shoes, the Group is currently conducting various tests on these projects and would continue improve and develop the technology in the coming year. As the Directors considered that they will not generate economic benefits for the Group in short term, the total related deferred development costs of RMB59.5 million was fully impaired during the year.

FINANCIAL REVIEW

Revenue by Product Category

	2017 *RMB'000*	2016 *RMB'000*	Increase/ (decrease) *% change*
Revenue (Boree Products)	**3,517**	2,698	30.4%
Revenue (Graphene-based Products)	**2,130**	43,171	(95.1%)
Revenue (OEM Business)	**119,854**	169,962	(29.5%)
Revenue (Total)	**125,501**	215,831	(41.9%)

Boree Products

Revenue from Boree Products increased by 30.4% to approximately RMB3.5 million during the year (2016: RMB2.7 million) was due to the increase of online sales.

Graphene-based Products

Due to the unexpected increase in price of chemical raw materials and the restriction on annual production volume of foam material, 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 our own branded slippers as slippers with distinctive functions like sterilizing, good elasticity and tear resistant. 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 during the year and the trial run of the first generation of the DIY automated vending system was completed in the first half of 2017. 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. In response to customers' needs, the design of the third generation of the DIY automated vending system was improved to be compatible with both summer and winter Graphene-based Slippers and was launched and started trial run in December 2017. As the time used to improve and upgrade the DIY automated vending system was longer than expected, the revenue of Graphene-based Products only amounted to approximately RMB2.1 million for the year (2016: RMB43.2 million).

OEM Business

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, resulting in a decrease in quantity ordered and delay of placing orders, and so the sales of OEM business decreased by RMB50.1 million or 29.5% to approximately RMB119.9 million as compared with last year (2016: RMB170.0 million).

Selling and Distribution Expenses

During the year, selling and distribution expenses slightly increased by 4.2% to approximately RMB8.9 million as compared with that of last year (2016: RMB8.6 million), which accounted for 7.1% (2016: 4.0%) of the Group's revenue. The increase was mainly attributable to more marketing activities held for the promotion of Graphene-based Slippers.

General and Administrative Expenses

General and administrative expenses recorded a decrease of approximately RMB12.1 million or 23.3% during the year as compared with that of last year, which was mainly attributable to the decrease in share-based payment expenses of approximately RMB15.3 million in relation to the share options granted by the Company on 10 December 2015, 24 June 2016 and 16 December 2016.

Liquidity and Financial Resources

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB28.3 million (2016: RMB33.2 million). As at 31 December 2017, cash and bank balances were approximately RMB5.9 million, representing an increase of 22.9% as compared with the cash and bank balances as at the end of last year (2016: RMB4.8 million). As at 31 December 2017, around 34.5% and 60.4% of the Group's cash and bank balances were denominated in US dollars and Renminbi respectively. As at 31 December 2017, the interest-bearing bank borrowings of the Group were approximately RMB117.0 million (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 31 December 2017, the Company had 1,084,059,608 shares in issue and a paid-up capital of approximately RMB71,629,000.

FINANCIAL REVIEW *(continued)*

Significant Investments, Material Acquisitions and Disposals

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

Pledge of Assets

As at 31 December 2017, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB2.1 million (2016: RMB4.3 million). The bank borrowings of the Group were also secured by a pledge of the Group's certain buildings and land use rights with carrying amounts of approximately RMB12.4 million (2016: RMB15.7 million) and approximately RMB32.6 million (2016: RMB33.5 million) respectively.

Contingent Liabilities

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

Foreign Exchange Risk

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

Gearing Ratio

As at 31 December 2017, the gearing ratio of the Group was 49.0% (2016: 44.6%). Gearing ratio was calculated as total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

FINANCIAL REVIEW *(continued)*

Human Resources

As at 31 December 2017, the Group had a total of approximately 730 employees (2016: 840 employees), with total staff costs for the year ended 31 December 2017, including directors' remuneration, amounted to approximately RMB52,049,000 (2016: RMB70,309,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 31 December 2017, the Company had unutilised net proceeds from the Initial Public Offering (''IPO'') in the amount of approximately RMB2.9 million, representing approximately 0.8% 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).

FINANCIAL REVIEW *(continued)*

The utilisation of the net proceeds as at 31 December 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	16,437
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	384,720

Use of Net Proceeds from the Issue of 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.

FUTURE PROSPECTS

The Group focused on the development of O2O business model for the sales and distribution of Graphene-based Slippers with distinctive functions and a higher gross profit margin and design and development of different styles of Graphene-based Slippers according to customers' preferences in 2017. Though the time used to improve and upgrade the DIY automated vending system was longer than expected, the feedback from customers and the market was positive. This positive feedback enhanced the confidence of the Group on the O2O business model. In view of the distinctive functions of the Graphene-based Slippers and low operating cost of the DIY automated vending system and the instant cash flow from customers by online payment, 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 maximise the profit of the Group.

In the coming year, the Group targets to greatly increase the number of DIY automated vending system and will launch marketing campaigns with more resources on the Graphene-based Slippers under the O2O business model. Besides, the Group will develop and launch Graphene-based Slippers and graphene-based shoes with different styles and functions and the Group targets to develop a new retail model for selling these products.

Moreover, the Group would continue to develop and launch different types of graphene application products. The sterilizing chips for air purifiers and air conditioners already completed the development stage and proved to be highly effective on reducing formaldehyde, toluene, xylene and volatile organic compounds and will be launched in the first half of 2018. As the PRC government tightened the environmental protection and control and the public pays more attention to the environmental protection, the Directors believed that there would be a great market demand for environmental protection products like air purifiers. Besides, in the coming year, the Group would continue improve and develop graphene-based energy storage cathode materials for batteries. As the performance of our graphene-based energy storage cathode materials for batteries is superior than the existing graphite based cathode material for batteries, the Directors believed that there would be a big demand for this product by lithium battery manufacturers in the PRC.

After paying continuous effort and capital investment in the past three years, the Group gradually transformed from a traditional manufacturing company to a high technology company and started to diversify our business to environmental protection and energy related field. In the coming years, the Group would continue deploying 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 strives to become a material science technology application company and the Board is of the view that this transformation would enhance the competitiveness and long-term development of the Group and help the Group to generate more revenue and profit in the future.

CORPORATE GOVERNANCE

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

Throughout the year ended 31 December 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, save for the deviations as detailed below. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by the Directors. The Company made specific enquiries of all the Directors and each of them confirmed that they have complied with the required standards set out in the Model Code during the financial year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee was established by the Board with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and risk management and internal control systems and review and monitor appointment of the auditors and their independence. As at 31 December 2017, the audit committee comprised three independent non-executive Directors, namely Mr. Chen Shaohua, Professor Zhao Jinbao and Ms. An Na, and Mr. Chen Shaohua was the chairperson of the audit committee. The annual results of the Group for the year ended 31 December 2017 have been reviewed by the audit committee.

REVIEW OF THIS ANNUAL RESULTS ANNOUNCEMENT

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

COMPANY SECRETARY

On 5 April 2017, Mr. Tsang Wing Pong resigned and Mr. Ip Pui Sum was appointed as the company secretary and authorised representative of the Company for accepting service of process and notices under the Hong Kong Companies Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

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

Hong Kong, 29 March 2018

As at the date of this announcement, the executive Directors are Mr. Zheng Jingdong and Mr. Leung Tsz Chung; the non-executive Director is Ms. Lin Weihuan; and the independent non-executive Directors are Professor Zhao Jinbao, Mr. Chen Shaohua and Ms. An Na.