**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)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

- Revenue of the Group for the six months ended 30 June 2018 amounted to approximately HK$559.5 million, representing an increase of approximately 26.0% as compared with the corresponding period of last year.
- Gross profit of the Group for the six months ended 30 June 2018 amounted to approximately HK$340.5 million, representing an increase of approximately 42.3% as compared with the corresponding period of last year.
- Profit attributable to the owners of the Company for the six months ended 30 June 2018 was approximately HK$302.6 million, representing an increase of approximately 49.1% as compared with the corresponding period of last year.
- Earnings per share for the six months ended 30 June 2018 was 53.30 HK cents (30 June 2017: 35.75 HK cents).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018.

The board (the "**Board**") of directors (the "**Directors**") of China Baofeng (International) Limited (the "**Company**") (collectively with its subsidiaries, the "**Group**") is pleased to present the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018 together with the unaudited comparative figures for the corresponding period in 2017 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *3* | **559,464** | 444,151 |
| Cost of sales | | **(219,008)** | (204,956) |
| Gross profit | | **340,456** | 239,195 |
| Other income | | **21,660** | 19,144 |
| Selling expenses | | **(12,580)** | (11,854) |
| Administrative and other expenses | | **(37,606)** | (31,529) |
| Finance costs | *4* | **(4,919)** | (4,572) |
| Profit before taxation | *5* | **307,011** | 210,384 |
| Taxation | *6* | **(4,454)** | (7,452) |
| Profit for the period | | **302,557** | 202,932 |
| Other comprehensive (expense) income for the period | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(24,784)** | 20,266 |
| Total comprehensive income for the period | | **277,773** | 223,198 |
| Earnings per share – Basic | *8* | **53.30 HK cents** | 35.75 HK cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | Notes | At 30 June 2018 HK$'000 (Unaudited) | At 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **291,900** | 253,407 |
| Prepaid rental expenses for photovoltaic facilities | *9* | **–** | 45,181 |
| Deposits paid for acquisition of property, plant and equipment | | **20,000** | – |
| Rental deposit | | **2,013** | 2,013 |
| Deferred tax asset | | **883** | 720 |
| Intangible asset | | **515** | 562 |
| | | **315,311** | 301,883 |
| **Current assets** | | | |
| Inventories | | **23,018** | 16,433 |
| Trade and other receivables | *10* | **148,659** | 855,040 |
| Contract assets | *11* | **965,548** | – |
| Prepaid rental expenses for photovoltaic facilities | *9* | **89,031** | 107,018 |
| Pledged bank deposits | | **7,738** | 126,747 |
| Bank balances and cash | | **66,234** | 60,661 |
| | | **1,300,228** | 1,165,899 |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **98,895** | 205,022 |
| Provision | | **13,248** | 10,503 |
| Tax payable | | **3,858** | 4,979 |
| Bank borrowings | *13* | **250,000** | 275,500 |
| | | **366,001** | 496,004 |
| **Net current assets** | | **934,227** | 669,895 |
| **Total assets less current liabilities** | | **1,249,538** | 971,778 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*
*At 30 June 2018*

| | Note | At 30 June 2018 HK$'000 (Unaudited) | At 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **Non-current liability** | | | |
| Deferred tax liability | | **37** | 50 |
| **Net assets** | | **1,249,501** | 971,728 |
| **Capital and reserves** | | | |
| Share capital | *14* | **5,677** | 5,677 |
| Reserves | | **1,243,824** | 966,051 |
| **Total equity** | | **1,249,501** | 971,728 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2018*

| | Share capital | Share premium | Special reserve | Statutory surplus reserve | Translation reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | *(Note a)* | *(Note b)* | | | |
| At 1 January 2018 (audited) | 5,677 | 289,547 | (1) | 68,226 | 40,226 | 568,053 | 971,728 |
| Profit for the period | – | – | – | – | – | 302,557 | 302,557 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | (24,784) | – | (24,784) |
| Total comprehensive (expense) income for the period | – | – | – | – | (24,784) | 302,557 | 277,773 |
| Transfer | – | – | – | 33,675 | – | (33,675) | – |
| At 30 June 2018 (unaudited) | 5,677 | 289,547 | (1) | 101,901 | 15,442 | 836,935 | 1,249,501 |
| At 1 January 2017 (audited) | 5,677 | 289,547 | (1) | 16,949 | (28,043) | 172,228 | 456,357 |
| Profit for the period | – | – | – | – | – | 202,932 | 202,932 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 20,266 | – | 20,266 |
| Total comprehensive income for the period | – | – | – | – | 20,266 | 202,932 | 223,198 |
| Transfer | – | – | – | 22,222 | – | (22,222) | – |
| At 30 June 2017 (unaudited) | 5,677 | 289,547 | (1) | 39,171 | (7,777) | 352,938 | 679,555 |

*Notes:*

a. Special reserve represents the reserve arising from group reorganisation in 2012.

b. In accordance with relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "**PRC**"), the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "**PRC GAAP**") to the statutory surplus reserve.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

**Application of new and amendments to HKFRSs**

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

**Impacts and changes in accounting policies upon application of HKFRS 15 "Revenue from Contracts with Customers"**

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Revenue from photovoltaic power generation
- Sales of lighting products

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

**Summary of effects arising from initial application of HKFRS 15**

Below illustrates the impacts of applying HKFRS 15 on the Group's condensed consolidated financial statements:

- For contracts of sales of lighting products that have multiple deliverables (including sales of product and transportation of products), revenue is recognised for each of these performance obligations when control over the corresponding goods is transferred to the customers. According to HKFRS 15, the transaction price is allocated to the different performance obligations on a relative stand-alone selling price basis. The revenue relating to the undelivered elements of the arrangements is deferred until delivery of these elements. The directors of the Company consider the impact of adopting of HKFRS 15 to revenue in relation to transportation of products for the six months ended 30 June 2018 is not material to the Group.

- For contracts of sales of lighting products that contain warranties, the Group accounts for the warranty in accordance with HKAS 37 as the directors of the Company consider these are assurance-type warranties.

- For sales of electricity, revenue is recognised based on the electricity transmitted dates. The directors of the Company have not identified any separate performance obligations other than the transmission of electricity to the state grid company.

- For tariff adjustments, contract assets are recognised for the receivables from electricity transmitted to customer pursuant to the government policy on subsidies of solar energy but not billed at the reporting date. The contract assets would be transferred to tariff adjustment receivables when the rights to consideration become unconditional. As at 1 January 2018, tariff adjustment receivables in "Trade and other receivables" of HK$676,829,000 was reclassified as "Contract assets".

The directors of the Company considered the application of HKFRS 15 has no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

**Impacts and changes in accounting policies upon application of HKFRS 9 "Financial Instruments"**

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Key changes in accounting policies resulting from application of HKFRS 9

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, contract assets, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for each debtor.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

### Summary of effects arising from initial application of HKFRS 9 on impairment under ECL model

Below illustrates the impairment of financial assets subject to ECL under HKFRS 9 at the date of initial application, 1 January 2018.

*Impairment under ECL model*

In relation to the impairment of financial assets, HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current period, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables.

Loss allowance for other financial assets at amortised cost mainly comprise of pledged bank deposits and bank balances, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

The directors of the Company considered the additional ECL allowance as at 1 January 2018 measured under the ECL model is insignificant.

## 3. REVENUE AND SEGMENT INFORMATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Revenue from photovoltaic power generation | | |
| – Sales of electricity | **103,725** | 69,207 |
| – Tariff adjustment *(note)* | **251,740** | 183,621 |
| Sales of lighting products | **203,999** | 191,323 |
| | **559,464** | 444,151 |

*Note:* As stated in the sales contract, revenue from photovoltaic power generation included tariff adjustment from the state grid company in the PRC based on the prevailing nationwide government policies on renewable energy for solar power plants.

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 gross profit 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.

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment revenue and results**

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

**For the six months ended 30 June 2018 (unaudited)**

| | **Photovoltaic power generation** *HK$'000* | **Sales of lighting products** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| SEGMENT REVENUE | | | |
| External sales | **355,465** | **203,999** | **559,464** |
| Segment profit | **316,407** | **3,386** | **319,793** |
| Unallocated income | | | **1,016** |
| Unallocated expenses | | | |
| – Administrative and other expenses | | | **(8,879)** |
| – Finance costs | | | **(4,919)** |
| Profit before taxation | | | **307,011** |

**For the six months ended 30 June 2017 (unaudited)**

| | Photovoltaic power generation *HK$'000* | Sales of lighting products *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| SEGMENT REVENUE | | | |
| External sales | 252,828 | 191,323 | 444,151 |
| Segment profit | 214,303 | 11,592 | 225,895 |
| Unallocated income | | | 129 |
| Unallocated expenses | | | |
| – Administrative and other expenses | | | (11,068) |
| – Finance costs | | | (4,572) |
| Profit before taxation | | | 210,384 |

Segment profit represents the profit earned by each segment and hence is arrived at without allocation of certain income and expenses (including other income, administration 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.

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

### 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 goods are physically delivered to and the location of electricity transmission and information about its non-current assets based on geographical location of the assets is set out below:

| | Revenue from external customers | | Non-current assets (other than deferred tax asset) | |
|---|---|---|---|---|
| | Six months ended 30 June | | As at 30 June | As at 31 December |
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| Hong Kong | **–** | – | **4,131** | 4,761 |
| PRC | **355,465** | 252,828 | **308,192** | 294,040 |
| United States of America | **201,990** | 188,556 | **2,105** | 2,362 |
| Canada | **1,731** | 2,767 | **–** | – |
| Others | **278** | – | **–** | – |
| Total revenue/non-current assets | **559,464** | 444,151 | **314,428** | 301,163 |

## 4. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses on bank borrowings | **4,919** | 4,572 |

## 5. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit before taxation has been arrived at after charging: | | |
| Staff costs, including directors' remuneration | | |
| Salaries, wages and other benefits | **27,770** | 21,958 |
| Retirement benefits scheme contributions | **737** | 775 |
| | **28,507** | 22,733 |
| Amortisation of intangible asset | **47** | 47 |
| Auditor's remuneration | **600** | 600 |
| Cost of inventories recognised as expenses | **214,854** | 201,405 |
| Depreciation of property, plant and equipment | **3,772** | 3,262 |
| Design and sampling costs, including staff costs of HK$2,112,000 (for the six months ended 30 June 2017: HK$1,890,000) | **3,596** | 3,294 |
| Operating lease rentals | | |
| – rented premises | **7,164** | 7,370 |
| – photovoltaic facilities | **47,484** | 43,690 |
| and after crediting: | | |
| Interest income | **940** | 358 |
| Net foreign exchange gain | **1,059** | 397 |

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current taxation: | | |
| – Hong Kong Profits Tax | **1,819** | 2,741 |
| – PRC Enterprise Income Tax ("**EIT**") | **832** | 2,429 |
| – Withholding tax in the PRC | **2,475** | 2,282 |
| | **5,126** | 7,452 |
| Overprovision in prior period: | | |
| – Oversea taxation | **(496)** | – |
| Deferred taxation | **(176)** | – |
| Total | **4,454** | 7,452 |

The Company and its subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% on assessable profits earned in Hong Kong for both periods.

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

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 year in which operating profit was derived. The subsidiary of the Company which was engaged in the public infrastructure projects has operating profit since 2016. The EIT incurred during the current period 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 to be distributed from profits 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. Deferred taxation has not been recognised in respect of certain undistributed retained profits earned by the subsidiary in the PRC amounting to approximately HK$856,032,000 (2017: HK$506,548,000) as the directors of the Company are of the opinion that the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 7. DIVIDEND

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company of HK$302,557,000 (30 June 2017: HK$202,932,000) and the number of 567,696,000 ordinary shares of the Company (2017: 567,696,000 ordinary shares of the Company).

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both periods.

## 9. PREPAID RENTAL EXPENSES FOR PHOTOVOLTAIC FACILITIES

| | **At 30 June 2018** *HK$'000* **(Unaudited)** | At 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Amounts of prepaid rental expenses for photovoltaic facilities analysed as: | | |
| Current | **89,031** | 107,018 |
| Non-current | **–** | 45,181 |
| | **89,031** | 152,199 |

The Company entered into lease agreements for photovoltaic facilities with an independent photovoltaic facilities provider for the rental period from 18 May 2016 to 17 May 2017, with the annual rental payment amounting to RMB90,000,000 (equivalent to approximately HK$105,300,000). The Group has renewed the lease agreement for the rental period from 18 May 2017 to 17 May 2019 with annual rental payment amounting to RMB180,000,000 (equivalent to approximately HK$214,286,000). The full amounts were paid in advance.

## 10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2018 HK$'000 (Unaudited) | At 31 December 2017 HK$'000 (Audited) |
|---|---|---|
| Trade receivables | **143,309** | 155,709 |
| Less: Allowance for doubtful debts | **(823)** | (823) |
| | **142,486** | 154,886 |
| Tariff adjustment receivables *(note)* | **–** | 676,829 |
| Bill receivables | **3,333** | 1,307 |
| Other receivables and prepayment | **2,840** | 22,018 |
| | **148,659** | 855,040 |

*Note:* 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 the 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 properly 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.

In the current interim period, as HKFRS 15 became effective, tariff adjustment receivables was reclassified as "Contract assets" as required by HKFRS 15 and is disclosed in note 11.

## 10. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows credit period with a range from 30 to 90 days to its customers. The following is an aging analysis of trade 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.

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 30 days | **55,863** | 54,243 |
| 31 to 60 days | **32,139** | 31,557 |
| 61 to 90 days | **18,639** | 34,855 |
| Over 90 days | **35,845** | 34,231 |
| | **142,486** | 154,886 |

## 11. CONTRACT ASSETS

The contract assets represent the tariff adjustment receivables amounting to HK$965,548,000. The amount would be received based on the prevailing national government policies on renewable energy for the Group's operating solar plant to be registered in the Catalogue. Please refer to note 10 for details of tariff adjustment receivables.

## 12. TRADE AND OTHER PAYABLES

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **47,728** | 67,282 |
| Bills payable for purchase of property, plant and equipment | **7,738** | 95,783 |
| Accrued sales commission | **542** | 617 |
| Construction payable | **29,387** | 29,918 |
| Other payables and accruals | **13,500** | 11,422 |
| | **98,895** | 205,022 |

## 12. TRADE AND OTHER PAYABLES *(Continued)*

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

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 30 days | **44,095** | 35,215 |
| 31 to 60 days | **1,115** | 23,772 |
| 61 to 90 days | **525** | 7,787 |
| Over 90 days | **1,993** | 508 |
| | **47,728** | 67,282 |

## 13. BANK BORROWINGS

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| The carrying amount of the secured bank borrowings that contains a repayment on demand clause (shown under current liabilities) but repayable: | | |
| Within one year | **250,000** | 275,500 |

The bank borrowings represented bank loans denominated in HK$ and carried interest at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.95% per annum (2017: HIBOR plus 1.7% per annum to HIBOR plus 2.95% per annum). As at 30 June 2018, the bank borrowing was 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. On 26 July 2018, the pledge of shares was fully released upon repayment of the bank borrowing after the reporting period.

## 14. SHARE CAPITAL

| | Number of shares | Share capital *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018 | 800,000,000 | 8,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018 | 567,696,000 | 5,677 |

## 15. PLEDGE OF ASSETS

As at 30 June 2018, no bank deposits (31 December 2017: RMB25,700,000 (equivalent to approximately HK$30,964,000)) were pledged to a bank to secure bank borrowing of the Group and bank deposits of RMB6,500,000 (equivalent to approximately HK$7,738,000) (31 December 2017: RMB79,500,000 (equivalent to approximately HK$95,783,000)) were pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of HK$730,000 (31 December 2017: HK$768,000) was pledged to a bank to secure banking facilities granted to the Group.

## 16. EVENT AFTER THE REPORTING PERIOD

On 20 July 2018, 96,150,000 subscription shares of the Company were allotted and issued to Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao, the chairman and executive director of the Company, at the subscription price of HK$2.60 per share under the specific mandate pursuant to the terms and conditions of the subscription agreement with Fung Teng Enterprises Limited.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Principal Business

The Group is engaged in (i) investment, construction and operation of photovoltaic power generation projects (the "**Photovoltaic Power Generation Business**"); and (ii) the sales of lighting products including portable lighting products, shades for lamps and furniture sets and other home accessory products (the "**Lighting Products Business**").

### Industry Overview

*Photovoltaic Power Generation Industry*

The photovoltaic power generation market in the People Republic of China (the "**PRC**") has experienced a negative impact from a notice issued by the National Development and Reform Commission of the PRC, Ministry of Finance of the PRC and the National Energy Administration (the "**NEA**") in relation to photovoltaic power generation in 2018 (關於2018年光伏發電有關事項的通知) (the "**2018 Notice**") on 31 May 2018 with immediate effect. Pursuant to the 2018 Notice, amongst others:

(1) the NEA will stop granting installation quota for ordinary utility-scale solar farms in 2018;

(2) cuts to the feed-in tariffs of newly approved ordinary utility-scale solar farms by RMB0.05 kilowatt per hour ("**kWh**") to RMB0.5/0.6/0.7/kWh in zones I, II and III respectively;

(3) cuts to the subsidy provided by the PRC government to newly approved distributed generation projects by RMB0.05/kWh to RMB0.32/kWh.

Notwithstanding the above, the 2018 Notice does not impact the Group's existing Yinchuan Project (defined below), as the Yinchuan Project commenced operation prior to the publication of the 2018 Notice.

*Portable Lighting Products Industry*

The competition of the global portable lighting products industry in the first half of 2018 remained fierce. The United States portable lighting products 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.

In June 2018, the United States government has announced that additional tariffs may be imposed on a total of US$200 billion worth of goods imported from the PRC to the United States which, when the tariffs come into force, may have an adverse effect on the profitability of the Group's lighting products. It is possible that the trading environment between the United States and the PRC of the lighting products industry, and in fact other consumer products industries, will continue to be challenging. The Group will continue to observe the progress of this potential impact from time to time and make necessary arrangements to optimise the returns to the shareholders of the Company (the "**Shareholders**") as a whole and reduce any negative effect on its performance and results of operations.

**Business Review**

For the six months ended 30 June 2018, the business of the Group has been integrated into two segments, which are Photovoltaic Power Generation Business and Lighting Products Business.

Attributable to the contribution of the Photovoltaic Power Generation Business for the period under review, the Group's operation delivered a strong improvement in both revenue and profitability for the six months ended 30 June 2018. For the six months ended 30 June 2018, the Group's revenue increased by approximately 26.0% to approximately HK$559.5 million while profit attributable to the owners of the Company increased by approximately 49.1% to approximately HK$302.6 million.

*Photovoltaic Power Generation Business*

During the period under review, the Photovoltaic Power Generation Business continued to develop and brought profits to the Group. In respect of the 350 megawatt photovoltaic power generation output capacity of the Group's photovoltaic project in Yinchuan City (the "**Yinchuan Project**"), Ningxia Hui Autonomous Region ("**Ningxia**"), the PRC, the major equipment of the Yinchuan Project was provided by Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司) through lease arrangement. In order to fully utilise the 390 megawatt photovoltaic power generation output capacity granted, the Group has commenced the development its own infrastructure and purchase equipment for the Yinchuan Project since December 2017. It is expected that the photovoltaic power generation output capacity from the Yinchuan Project would increase from 350 megawatt in 2017 to 390 megawatt by the end of 2018.

As confirmed by the State Grid Corporation of China, for the six months ended 30 June 2018, the Group has generated approximately 415.6 million kWh of power and the Photovoltaic Power Generation Business continued to be the main source of the revenue of the Group, accounting for approximately 63.5% (30 June 2017: 56.9%) of the Group's total revenue for the six months ended 30 June 2018. In addition, the Photovoltaic Power Generation Business continued to be the key growth driver of the profit of the Group, contributing to approximately 98.9% of the Group's total segment profit for the six months ended 30 June 2018 (30 June 2017: 94.9%).

The Group's revenue from the Photovoltaic Power Generation Business for the six months ended 30 June 2018 was approximately HK$355.5 million, which represents an increase of approximately 40.6% from the revenue generated for the corresponding period in 2017 (30 June 2017: HK$252.8 million). The segment profit margin of the Photovoltaic Power Generation Business was approximately 89.0% for the six months ended 30 June 2018 (30 June 2017: 84.8%), and the segment profit increased by approximately 47.6% to approximately HK$316.4 million (30 June 2017: HK$214.3 million).

*Lighting Products Business*

The Group's revenue from the Lighting Products Business for the six months ended 30 June 2018 was approximately HK$204.0 million (30 June 2017: HK$191.3 million), contributing to approximately 36.5% (30 June 2017: 43.1%) of the Group's total revenue, and representing a slight increase of 6.6% from the revenue generated in the corresponding period in 2017. Nevertheless, due to the keen competition in the principal market of the lighting products of the Group and rising of operating expenses, the segment profit margin of Lighting Products Business decreased to approximately 1.7% for the six months ended 30 June 2018 (30 June 2017: 6.1%) and the segment profit decreased by approximately 70.8% to approximately HK$3.4 million (30 June 2017: HK$11.6 million).

## Outlook and Prospects

*Photovoltaic Power Generation Business*

The Board expects that Yinchuan Project will be registered in the eighth batch of the Renewable Energy Tariff Subsidies Catalogue* (可再生能源電價附加資金補助目錄). If successful, the Board expects to receive settlements of tariff adjustment receivables from the PRC Government, which will improve the liquidity of the Group.

In the second half of 2018, the Group will continue to leverage the knowledge and experiences of its management to evaluate and seek 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 the 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 as a whole.

*Lighting Products Business*

For the second half of 2018, it is expected that the Lighting Products Business will continue to be adversely affected by the intensified competition in its principal markets, rising costs of labour and raw materials and possible tariffs imposed by the United States. 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 Business; and (ii) Lighting Products Business. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the six months ended 30 June 2017 and 2018.

| | For the six months ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | | | 2017 | | | |
| | **Revenue** *HK$'000* | **% of revenue** | **Segment profit** *HK$'000* | **Segment profit margin** *(%)* | Revenue *HK$'000* | % of revenue | Segment profit *HK$'000* | Segment profit margin *(%)* |
| Photovoltaic Power Generation Business | **355,465** | **63.5** | **316,407** | **89.0** | 252,828 | 56.9 | 214,303 | 84.8 |
| Lighting Products Business | **203,999** | **36.5** | **3,386** | **1.7** | 191,323 | 43.1 | 11,592 | 6.1 |
| Total | **559,464** | **100** | **319,793** | **57.2** | 444,151 | 100 | 225,895 | 50.9 |

*Revenue*

During the six months ended 30 June 2018, revenue of the Group was derived from the Photovoltaic Power Generation Business and Lighting Products Business amounting to approximately HK$559.5 million, representing an increase of approximately 26.0% from approximately HK$444.2 million for the six months ended 30 June 2017. The increase in revenue was mainly attributable to the revenue contribution from the Photovoltaic Power Generation Business.

*Gross profit and gross profit margin*

During the six months ended 30 June 2018, the gross profit of the Group increased by approximately 42.3% from approximately HK$239.2 million for the corresponding period in 2017 to approximately HK$340.5 million. The gross profit margin of the Group improved from approximately 53.9% for the six months ended 30 June 2017 to approximately 60.9% for the corresponding period in 2018. The increase in both gross profit and gross profit margin of the Group for the period was attributable to the contribution of the Photovoltaic Power Generation Business while the gross profit margin of which was significantly higher compared with the Lighting Products Business.

*Operating costs*

During the six months ended 30 June 2018, the total operating cost increased to approximately HK$50.2 million, representing an increase of approximately 15.7% from approximately HK$43.4 million for the corresponding period in 2017. The increase in operating cost was primarily due to rising staff costs and other operating expenses.

*Finance Costs*

The Group recorded finance costs amounting to approximately HK$4.9 million for the six months ended 30 June 2018 (30 June 2017: HK$4.6 million). The Group incurred such finance costs during the period mainly due to the interest expenses on bank borrowing, the proceeds of which were primarily used to support the development of the Photovoltaic Power Generation Business and general working capital needs for the Group's corporate office.

*Profit attributable to owners of the Company*

Profit attributable to owners of the Company of approximately HK$302.6 million was recorded for the six months ended 30 June 2018, as compared with a profit of approximately HK$202.9 million attributable to owners of the Company for the corresponding period in 2017. Earnings per share was 53.30 HK cents for the six months ended 30 June 2018, as compared with earnings per share of 35.75 HK cents for the corresponding period in 2017.

**Liquidity and Financial Resources**

As at 30 June 2018, cash and cash equivalents of the Group were approximately HK$66.2 million, representing an increase of 9.2% from approximately HK$60.7 million as at 31 December 2017. This was mainly due to release of pledged bank deposits after repayment of the corresponding bank borrowing.

For the six months ended 30 June 2018, the Group's primary source of funding included cash generated from its operating activities and bank borrowing.

As at 30 June 2018, the Group had a total bank borrowing of HK$250.0 million (31 December 2017: HK$275.5 million). The Group's current ratio (current asset divided by current liabilities) was 3.6 times as at 30 June 2018, which was improved from 2.4 times as at 31 December 2017.

**Interim Dividend**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: 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 borrowing, bills payable and net cash and cash equivalents and pledged deposits, and (ii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 30 June 2018, net gearing ratio was 14.7% (31 December 2017: 18.9%). This ratio is based on bank borrowing and bills payable less cash and cash equivalents and pledged bank deposit divided by total equity.

As at 30 June 2018, the interest-bearing bank borrowing of the Group that will become due within a year was HK$250.0 million (31 December 2017: HK$275.5 million), which carried interest at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.95% per annum ("**Loan A**") (31 December 2017: HIBOR plus 1.7% per annum to HIBOR plus 2.95% per annum). As at 30 June 2018 and 31 December 2017, Loan A was secured by a pledge of 252,600,000 ordinary shares of HK0.01 (the "**Shares**") 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. As at 30 June 2018, bills payable amounting to RMB6.5 million (equivalent to approximately HK$7.7 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)) were secured by bank deposits of RMB6.5 million (equivalent to approximately HK$7.7 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)).

As at 30 June 2018, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

**Contingent Liabilities**

As at 30 June 2018 and 31 December 2017, the Group did not have any contingent liability.

## Significant Investments

The Group has commenced the development of its own infrastructure for additional 40 megawatt output capacity of the photovoltaic power generation since December 2017 and as at 30 June 2018, RMB187.5 million has been invested in this regard. It is expected that such investment would contribute to the revenue and profit of the Group for the year ending 31 December 2018. Save as disclosed, the Group did not have any other significant investments as at 30 June 2018.

## Future Plans for Material Investments or Capital Assets

In view of the positive development of the Photovoltaic Power Generation Business, the Group will continue to develop the Yinchuan Project to reach 390 megawatt output capacity of the photovoltaic power generation at the end of 2018. In addition, 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 30 June 2018. 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 rules under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as and when appropriate.

## Material Acquisitions or Disposals

During the six months ended 30 June 2018, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

## Charges on Assets

As at 30 June 2018, bank deposits of RMB6.5 million (equivalent to approximately HK$7.7 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)) were pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of approximately HK$0.7 million (31 December 2017: HK$0.8 million) was pledged to a bank to secure banking facilities granted to the Group.

### Foreign Exchange Exposure

During the period under review, 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 six months ended 30 June 2018 were insignificant. The Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the six months ended 30 June 2018. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

### Capital Commitment

As at 30 June 2018, the Group's capital commitment amounted to approximately HK$17.9 million (31 December 2017: HK$44.8 million) in respect of property, plant and equipment contracted but not provided for.

## CORPORATE GOVERNANCE

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 "**CG Code**") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2018, except for the following:

Under code provision C.2.5 of the CG Code, an issuer should have an internal audit function. For the six months ended 30 June 2018, 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 period under review. 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 CG Code of the Listing Rules during the six months ended 30 June 2018.

## Compliance with the Model Code for Securities Transactions

During the six months ended 30 June 2018, the Group 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 code of conduct regarding Directors' securities transactions in securities of the Company. Upon specific enquiry, each Director confirmed that during his tenure in the six months ended 30 June 2018, he had fully complied with the required standard of dealings and there was no event of non-compliance.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares.

## 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 in compliance with the code provisions set out in the CG Code. 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 30 June 2018, 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 unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2018 have been reviewed by the Audit Committee. Deloitte Touche Tohmatsu, the Group's auditor, has carried out a review of the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018, which is prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

**Publication of Interim Results Announcement and Interim Report for the six months ended 30 June 2018**

This announcement for interim results for the six months ended 30 June 2018 is published on the websites of the Company (www.baofengintl.com) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2018 will be despatched to Shareholders and published on the aforementioned websites in due course.

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

Hong Kong, 17 August 2018

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