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

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2017 and the relevant explanatory notes as set out below.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
REVENUE	*4*	**101,726**	79,328
Cost of sales		**(76,679)**	(59,480)
GROSS PROFIT		**25,047**	19,848
Other net income and gains	*4*	**1,109**	854
Selling and distribution expenses		**(5,946)**	(4,772)
General and administrative expenses		**(32,670)**	(22,664)
Amortisation of intangible assets	*9*	**(36,298)**	(63,298)
Finance costs	*5*	**(2,859)**	(3,335)
Fair value (loss)/gain on convertible notes and warrants at fair value through profit or loss	*14*	**(4,769)**	33,747
Fair value gain/(loss) on provision for contingent consideration at fair value through profit or loss	*15*	**742**	(18,139)
LOSS BEFORE TAX	*6*	**(55,644)**	(57,759)
Income tax credit/(expense)	*7*	**643**	(1,625)
LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(55,001)**	(59,384)
LOSS PER SHARE	*8*		
– Basic (RMB)		**(0.051)**	(0.055)
– Diluted (RMB)		**(0.051)**	(0.055)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**50,818**	41,416
Prepaid land lease payments		**26,589**	26,954
Intangible assets	*9*	**600,690**	636,981
		678,097	705,351
CURRENT ASSETS			
Inventories		**29,270**	36,227
Trade and bills receivables	*10*	**22,600**	29,806
Prepayments, deposits and other receivables		**10,901**	10,321
Pledged deposits		**4,284**	2,127
Cash and bank balances		**5,919**	5,888
		72,974	84,369
Assets classified as held for sale	*11*	**26,000**	26,000
		98,974	110,369
CURRENT LIABILITIES			
Trade and bills payables	*12*	**47,941**	48,001
Contract liabilities		**450**	–
Deposits received, other payables and accruals		**52,332**	39,925
Interest-bearing bank borrowings	*13*	**111,000**	117,000
Convertible notes	*14*	**149,591**	87,002
Income tax payable		**–**	2,216
		361,314	294,144
NET CURRENT LIABILITIES		**(262,340)**	(183,775)
TOTAL ASSETS LESS CURRENT LIABILITIES		**415,757**	521,576

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 30 June 2018

	Notes	**30 June 2018** *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
NON-CURRENT LIABILITIES			
Convertible notes	*14*	**–**	57,820
Provision for contingent consideration	*15*	**45,420**	47,272
Deferred tax liability		**3,071**	3,071
		48,491	108,163
NET ASSETS		**367,266**	413,413
EQUITY			
Share capital	*16*	**71,629**	71,629
Reserves		**295,637**	341,784
TOTAL EQUITY		**367,266**	413,413

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

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

For the six months ended 30 June 2018

	Attributable to owners of the Company									
		Reserves								
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Contributed surplus** *RMB'000*	**Statutory surplus fund** *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Capital redemption reserve** *RMB'000*	**Share options reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total reserves** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2018 (audited)	**71,629**	**416,325**	**141,376**	**95,478**	**155**	**524**	**28,284**	**(340,358)**	**341,784**	**413,413**
Loss and total comprehensive expense for the Period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(55,001)**	**(55,001)**	**(55,001)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**–**	**–**	**8,854**	**–**	**8,854**	**8,854**
Forfeiture of share options	**–**	**–**	**–**	**–**	**–**	**–**	**(1,781)**	**1,781**	**–**	**–**
At 30 June 2018 (unaudited)	**71,629**	**416,325**	**141,376**	**95,478**	**155**	**524**	**35,357**	**(393,578)**	**295,637**	**367,266**

NOTES:

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of slippers, sandals, casual footwear and graphene-based ethylene-vinyl acetate ("EVA") foam material and slippers. An analysis of the Group's performance for the Period by business segment is set out in note 3 to this interim financial results.

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting issued by the International Accounting Standards Board and the disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately RMB262,340,000. The Group incurred a loss for the Period of approximately RMB55,001,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

2. BASIS OF PREPARATION *(continued)*

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

1. The Group will negotiate with the banks in the PRC 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 condensed 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 condensed consolidated statement of financial position. Accordingly, the Directors are of the opinion that it is appropriate to prepare the Interim Financial Statements for the six months ended 30 June 2018 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the Interim Financial Statements.

2. BASIS OF PREPARATION *(continued)*

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements as detailed below:

The Group has adopted the following new and revised IFRSs which are effective for the Group's financial year beginning on 1 January 2018.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC* 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

Except as described below, the application of the new and revised IFRSs have had no material impact on the contents of the Interim Financial Statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

IFRS 9 contains three principal classification and measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

From 1 January 2018, the categories of loans and receivables under IAS 39, including trade and bills receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and bank balances, were reclassified as financial assets measured at amortised cost.

The measurement categories and carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2. **BASIS OF PREPARATION** *(continued)*

IFRS 9 Financial Instruments *(continued)*

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises credit losses earlier than under the "incurred loss" model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost, including trade and bills receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and bank balances.

Under IFRS 9, ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from default events on a financial instrument that are possible within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected life of a financial instrument.

For trade and bills receivables, and financial assets included in prepayments, deposits and other receivables, the Group has measured the loss allowance as an amount equal to lifetime ECLs. For pledged deposits, and cash and bank balances, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The Group has concluded that there is no material impact for the initial application of the new impairment requirements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 introduces a 5-step approach to revenue recognition: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, any entity recognises revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group has assessed the impact of the adoption of IFRS 15, and concluded that the initial application of IFRS 15 does not have a significant impact on the Group's revenue recognition.

2. BASIS OF PREPARATION *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

Under IFRS 15, a contract liability, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue, or when the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e. refund liability). To reflect this change in presentation, contract liabilities, that is receipts in advance from customers, with amount of RMB450,000 are now separately presented in the condensed consolidated statement of financial position at 30 June 2018, as a result of the adoption of IFRS 15.

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

3. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods or services delivered or provided. Specifically, the Group's reportable and operating segments are as follows:

(a) the Boree branded products segment manufactures and sells Boree branded slippers, sandals and casual footwear ("Boree Products");

(b) the graphene-based products segment applied the technology know-how by applying graphene in the production of graphene-based EVA foam material and slippers with sterilizing, good elasticity and tear resistant functions ("Graphene-based Products"); and

(c) the Original Equipment Manufacturer ("OEM") segment produces slippers for branding and resale by others.

CODM monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment result, which is a measure of adjusted result before tax.

The segment profit or loss represents the profit earned by or loss from each segment without allocation of interest income, other unallocated net income and gains, amortisation of intangible assets, fair value change on convertible notes, warrants and provision for contingent consideration at fair value through profit or loss ("FVTPL"), finance costs as well as corporate and other unallocated expenses.

Segment assets exclude property, plant and equipment, prepaid land lease payments, intangible assets, raw materials, work in progress, prepayments, deposits and other receivables, pledged deposits, 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, contract liabilities, certain other payables and accruals, interest-bearing bank borrowings, convertible notes, income tax payable, deferred tax liability and provision for contingent consideration as these liabilities are managed on a group basis.

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

Period ended 30 June 2018

	Boree Products *RMB'000* (unaudited)	Graphene-based Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue				
Sales to external customers	2,147	2,294	97,285	101,726
Segment results	20	(172)	19,253	19,101
Reconciliation:				
Interest income				23
Other unallocated net income and gains				1,086
Corporate and other unallocated expenses				(32,670)
Amortisation of intangible assets				(36,298)
Fair value loss on convertible notes at FVTPL				(4,769)
Fair value gain on provision for contingent consideration at FVTPL				742
Finance costs				(2,859)
Loss before tax				(55,644)

As at 30 June 2018

	Boree Products *RMB'000* (unaudited)	Graphene-based Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment assets	2,993	2,073	25,104	30,170
Reconciliation:				
Corporate and other unallocated assets				720,901
Assets classified as held for sale				26,000
Total assets				777,071
Segment liabilities	300	–	–	300
Reconciliation:				
Corporate and other unallocated liabilities				409,505
Total liabilities				409,805

3. SEGMENT INFORMATION *(continued)*

Period ended 30 June 2017

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

As at 31 December 2017

	Boree Products RMB'000 (audited)	Graphene-based Products RMB'000 (audited)	OEM RMB'000 (audited)	Total RMB'000 (audited)
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)*

Geographical information

(a) ***Revenue from external customers***

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC (principal place of operations)	**6,072**	1,629
United States of America ("US")	**93,022**	71,607
South America	**572**	375
Europe	**314**	1,461
South East Asia	**975**	1,945
Other countries	**771**	2,311
	101,726	79,328

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

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

	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC (principal place of operations)	**678,093**	705,345

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

Information about major customers

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**57,306**	48,152
Customer B*	**–**	8,135
Customer C	**13,931**	3,810
Customer D	**11,951**	–

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

The Group's major customers are in the OEM segment.

4. REVENUE, OTHER NET INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other net income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Manufacture and sales of goods	**101,726**	79,328
Other net income and gains		
Interest income	**23**	55
Sales of scrap material	**290**	62
Rental income	**104**	171
Subsidy income	**576**	164
Exchange gain	**116**	–
Others	**–**	402
	1,109	854

5. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	**2,859**	3,335

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**77,109**	59,499
Depreciation*	**2,923**	3,584
Amortisation of prepaid land lease payments	**365**	422
Amortisation of intangible assets	**36,298**	63,298
Minimum lease payments under operating leases in respect of land and buildings*	**682**	211
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**27,606**	22,206
Equity-settled share option expenses	**8,854**	4,629
Staff welfares	**634**	515
Contributions to retirement benefits schemes	**1,500**	1,205
	38,594	28,555
Impairment loss/(reversal of impairment loss) on trade receivables	**6,013**	(690)
Reversal of write down of inventories	**(430)**	(19)
Loss on disposal of items of property, plant and equipment	**89**	108
Exchange (gain)/loss, net	**(116)**	425
Research and development costs**	**3,704**	4,615

* *The cost of inventories sold for the Period includes approximately RMB20,357,000 (2017: RMB16,563,000) 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 condensed 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 Period (2017: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC Enterprise Income Tax		
(Credit)/charge for the period	**(946)**	813
Under-provision in prior years	**303**	812
Total tax (credit)/expense for the period	**(643)**	1,625

8. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the Period attributable to owners of the Company of approximately RMB55,001,000 (2017: RMB59,384,000) and the weighted average number of Shares of 1,084,059,608 (2017: 1,084,059,608) in issue during the Period.

The weighted average number of Shares used to calculate the basic loss per share for the Period included the 1,084,059,608 Shares in issue as at 1 January 2018 and 30 June 2018.

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

During the periods ended 30 June 2018 and 2017, diluted loss per share does not assume the exercise of the Company's share options and convertible notes as the exercise of the Company's share options and convertible notes would result in a decrease in loss per share, and is regarded as anti-dilutive.

9. INTANGIBLE ASSETS

	Technology Know-how (Notes a, c) RMB'000	O2O distribution vending system (Notes b, c) RMB'000	Deferred development costs (Note d) RMB'000	Total RMB'000
Cost:				
At 1 January 2017	1,587,518	60,000	92,378	1,739,896
Addition during the year	–	–	150	150
At 31 December 2017 and 1 January 2018	1,587,518	60,000	92,528	1,740,046
Addition during the Period	–	–	7	7
At 30 June 2018	1,587,518	60,000	92,535	1,740,053
Accumulated amortisation and impairment:				
At 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 and 1 January 2018	1,038,518	4,954	59,593	1,103,065
Provided for the Period	32,940	3,303	55	36,298
At 30 June 2018	1,071,458	8,257	59,648	1,139,363
Net carrying amount:				
At 30 June 2018	516,060	51,743	32,887	600,690
At 31 December 2017	549,000	55,046	32,935	636,981

Notes:

(a) It represented certain technological know-how in respect of the application of graphene and includes one patent in the US ("US Patent"), four invention patent applications, three utility model patent applications and two utility model patents in the PRC (collectively as "PRC Patents"), relating to the manufacturing of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively as the "Technology Know-how"), which was acquired from Bluestone, an independent third party, in 2015.

9. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(a) *(continued)*

The completion date of the transaction ("Completion Date") was 16 December 2015. The cost of the Technology Know-how was determined by the Directors and represented the sum of the cash consideration, the fair value of the convertible notes (note 14) and provision for contingent consideration at the acquisition date (note 15), 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 there was no impairment to the carrying amount of the O2O Unit as at 30 June 2018.

(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 graphene deodorizing and 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 using discounted cash flow approach and considered that no provision for impairment to the carrying amount of the Sterilizing Chips was made at 30 June 2018.

10. 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:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**21,586**	19,703
4 to 6 months	**380**	786
7 to 12 months	**634**	6,405
Over 1 year	**–**	2,912
	22,600	29,806

11. 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 30 June 2018 and 31 December 2017 are as follows:

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

The Group has pledged the land use right with a net carrying amount of approximately RMB4,926,000 (31 December 2017: RMB4,926,000) to secure general banking facilities granted to the Group.

12. 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 date, is as follows:

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Within 3 months	**25,924**	29,396
Over 3 months	**22,017**	18,605
	47,941	48,001

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (31 December 2017: six months). The bills payables of RMB14,280,000 (31 December 2017: RMB7,090,000) were secured by the Group's pledged deposits amounting to RMB4,284,000 as at 30 June 2018 (31 December 2017: RMB2,127,000).

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Secured bank loans repayable within one year	**111,000**	117,000

(a) At 30 June 2018 and 31 December 2017, the bank loans were denominated in Renminbi and bore interest rates ranging from:

Six months ended 30 June 2018	5.00% – 5.22% per annum
Year ended 31 December 2017	4.35% – 5.00% per annum

(b) At 30 June 2018, the secured bank loans of the Group were secured by a pledge of certain of the Group's buildings and land use right, with carrying amount of approximately RMB10,782,000 (31 December 2017: RMB12,415,000) and approximately RMB32,246,000 (31 December 2017: RMB32,611,000) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party and a director of the Company.

14. 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*	**Total** *RMB'000*
Fair value at 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 and 1 January 2018	87,002	57,820	–	144,822
Fair value loss charged to profit or loss during the Period	3,125	1,644	–	4,769
Fair value at 30 June 2018	90,127	59,464	–	149,591
Represented by:				
At 30 June 2018				
Current portion	90,127	59,464	–	149,591
Non-current portion	–	–	–	–
	90,127	59,464	–	149,591
At 31 December 2017				
Current portion	87,002	–	–	87,002
Non-current portion	–	57,820	–	57,820
	87,002	57,820	–	144,822

Notes:

(a) In connection with the acquisition of the Technology Know-how as explained in note 9, the Company issued zero-coupon unsecured convertible notes (the "2015 Convertible Notes") with principal amount of HK$110,880,000 as part of the initial consideration on 16 December 2015. As a settlement of part of contingent consideration, the Company also issued zero-coupon unsecured convertible notes (the "2016 Convertible Notes") with principal amount of HK$73,920,000 on 2 February 2016.

14. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

Notes: (continued)

(a) *(continued)*

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

During the period ended 30 June 2018 and year ended 31 December 2017, the Convertible Notes holder did not convert any Convertible Notes.

The Convertible Notes included a debt instrument with embedded derivatives. Upon initial recognition, the Convertible Notes are designated as financial liabilities at FVTPL since it contains embedded foreign exchange derivatives. The fair values of the Convertible Notes are remeasured at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

Valuation

As at 30 June 2018 and 31 December 2017, the fair values of the Convertible Notes were based on the valuations performed by Ascent Partners Valuation Service Limited ("Ascent Partners"), an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	30 June 2018	31 December 2017
2015 Convertible Notes		
Stock closing price (HK$)	**0.53**	0.52
Principal amount (HK$'000)	**110,880**	110,880
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**71.47**	84.94
Risk-free rate (% per annum)	**1.55**	1.04
Expected life (years)	**0.46**	0.96
Expected dividend yield (%)	**0**	0
2016 Convertible Notes		
Stock closing price (HK$)	**0.53**	0.52
Principal amount (HK$'000)	**73,920**	73,920
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**65.49**	79.09
Risk-free rate (% per annum)	**1.58**	1.07
Expected life (years)	**0.59**	1.09
Expected dividend yield (%)	**0**	0

14. 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).

No warrants have been exercised during the year ended 31 December 2017.

The 2012 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 2012 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.

15. PROVISION FOR CONTINGENT CONSIDERATION

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

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

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

Upon fulfilment of the Second Instalment Conditions, the second instalment in the amount of RMB450,000,000 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.

15. 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 14) 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.

15. PROVISION FOR CONTINGENT CONSIDERATION *(continued)*

Provision for contingent consideration as at 30 June 2018 represented the contingent cash consideration payable to Bluestone or its nominee(s) under the EBITDA Sharing Mechanism.

The movements of the provision for contingent consideration were as follows:

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
As at the beginning of the Period/year	**48,302**	276,868
Amount incurred during the Period/year	**–**	(8,678)
Fair value gain credited to profit or loss during the Period/year	**(742)**	(219,888)
As at the end of the Period/year	**47,560**	48,302
Current portion included in deposits received, other payables and accruals	**(2,140)**	(1,030)
Non-current portion	**45,420**	47,272

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach (31 December 2017: discounted cash flow approach). The discount rate used in the approach as at 30 June 2018 were ranging from 11.91%-12.06% (31 December 2017: 12.32%-12.54%).

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

The Directors conducted a fair value assessment of the provision for contingent consideration as at 30 June 2018, with reference to a valuation conducted by Ascent Partners.

16. SHARE CAPITAL

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

	Number of ordinary shares of US$0.01 each	**Nominal value of ordinary shares** *US$'000*	**Nominal value of ordinary shares** *RMB'000*
Authorised:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	1,084,059,608	10,841	71,629

17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**964**	1,011
Contributions to retirement benefits schemes	**15**	16
	979	1,027

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2018, the Group recorded an increase in revenue of approximately RMB22.4 million or 28.2% for the Period to approximately RMB101.7 million (2017: RMB79.3 million), which was contributed by the increase in revenue of all operating segments. The Group continued to focus on the development of do-it-yourself ("DIY") automated vending system, the key machine for the O2O business model, for the sales and distribution of own branded automated customized graphene-based slippers ("Graphene-based Slippers"). Besides, due to delay of placing orders by some overseas customers at the end of last year, some orders of the OEM business were delayed to the first half of 2018, which led to an increase in sales of OEM business during the Period.

During the Period, the gross profit margin of the Group slightly decreased to 24.6% (2017: 25.0%), which was mainly attributable to the increase in cost of chemical raw materials.

During the Period, the Group recorded a net loss of approximately RMB55.0 million (2017: RMB59.4 million), which was mainly attributable to (i) amortisation of intangible assets of approximately RMB36.3 million (2017: RMB63.3 million) in relation to the O2O distribution vending system and the acquisition of the Technology Know-how from Bluestone; (ii) share-based payment expenses of approximately RMB8.9 million (2017: RMB4.6 million) in relation to the share options granted by the Company on 10 December 2015, 24 June 2016, 16 December 2016 and 19 June 2018; (iii) impairment loss on trade receivables of approximately RMB6.0 million (2017: reversal of impairment loss on trade receivables of RMB0.7 million); and (iv) the fair value loss on convertible notes at FVTPL of approximately RMB4.8 million (2017: fair value gain on convertible notes and warrants at FVTPL of RMB33.7 million).

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2018	2017	
	RMB'000	*RMB'000*	Increase
	(unaudited)	(unaudited)	*% change*
Revenue (Boree Products)	**2,147**	1,528	40.5%
Revenue (Graphene-based Products)	**2,294**	99	2,217.2%
Revenue (OEM Business)	**97,285**	77,701	25.2%
Revenue (Total)	**101,726**	79,328	28.2%

During the Period, the revenue of the Group increased by approximately RMB22.4 million or 28.2% to approximately RMB101.7 million (2017: RMB79.3 million). Revenue of Boree Products increased by 40.5% to approximately RMB2.1 million during the Period (2017: RMB1.5 million) was due to the increase of online sales. Due to delay of placing orders by some overseas customers at the end of last year, some orders of the OEM business were delayed to the first half of 2018, resulting in an increase in revenue of 25.2% to approximately RMB97.3 million (2017: RMB77.7 million). The recent trade frictions between the US and China have not caused much impact on the OEM business operations. The Company will continue to monitor any further developments as well as any implications which might have on the Company's OEM business operations.

Revenue of Graphene-based Products amounted to approximately RMB2.3 million (2017: RMB99 thousand) during the Period. The third generation of the DIY automated vending system started trial run in December 2017 and was fine-tuned based on trial operation data and customer feedback during the Period.

Selling and Distribution Expenses

During the Period, selling and distribution expenses increased by 24.6% to approximately RMB5.9 million as compared with that of last corresponding period (2017: RMB4.8 million), which accounted for 5.8% (2017: 6.0%) of the Group's revenue. The increase was in line with the sales growth during the Period.

General and Administrative Expenses

General and administrative expenses recorded an increase of approximately RMB10.0 million or 44.1% to RMB32.7 million for the Period (2017: RMB22.7 million), which was mainly attributable to an increase in share-based payment expenses of approximately RMB4.2 million in relation to the share options granted by the Company on 19 June 2018 and an increase of impairment loss on trade receivables of approximately RMB6.7 million during the Period.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB12.0 million, representing a decrease of RMB4.4 million or 26.8% compared with that of last corresponding period (2017: RMB16.4 million). As at 30 June 2018, cash and bank balances were approximately RMB5.9 million, similar to approximately RMB5.9 million as at 31 December 2017. As at 30 June 2018, around 52.3% and 40.6% of the Group's cash and bank balances were denominated in Renminbi and US dollars. As at 30 June 2018, the interest-bearing bank borrowings of the Group were approximately RMB111.0 million (31 December 2017: RMB117.0 million). All bank loans were denominated in Renminbi with fixed interest rates and repayable within one year.

Capital Structure

As at 1 January 2018 and 30 June 2018, the Company had 1,084,059,608 Shares in issue and a paid-up capital of approximately RMB71,629,000.

Significant Investments, Material Acquisitions and Disposals

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

Pledge of Assets

As at 30 June 2018, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB4.3 million (31 December 2017: RMB2.1 million). The bank borrowings of the Group were also secured by a pledge of the Group's certain buildings and land use right with net carrying amounts of approximately RMB10.8 million (31 December 2017: RMB12.4 million) and approximately RMB32.2 million (31 December 2017: RMB32.6 million) respectively.

Contingent Liabilities

As at 30 June 2018 and 31 December 2017, there were no material contingent liabilities.

Foreign Exchange Risk

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

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group was 52.5% (31 December 2017: 49.0%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refer to the total liabilities minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 30 June 2018, the Group had a total of approximately 620 employees (31 December 2017: 730 employees), with total staff costs for the Period, including directors' remuneration, amounted to approximately RMB38,594,000 (2017: RMB28,555,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 30 June 2018, the Company had unutilised net proceeds from the Initial Public Offering (''IPO'') in the amount of approximately RMB1.5 million, representing approximately 0.4% of the total net proceeds from the IPO (the "Unutilised Net Proceeds"). In light of current market conditions of footwear industry in the PRC and the development of the Group, the Company believes that the use of the Unutilised Net Proceeds under the original intended purpose may no longer meet the Group's imminent business development needs. In order to maximise the benefits of the Company and its shareholders, the Company may change the usage of the Unutilised Net Proceeds from the original intended purposes to working capital and other general corporate purposes of the Group. If this happens, further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules on the Stock Exchange.

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

The utilisation of the net proceeds as at 30 June 2018 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	17,889
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	386,172

BUSINESS REVIEW AND FUTURE PROSPECTS

The revenue of the Group for the Period was approximately RMB101.7 million, representing an increase of approximately RMB22.4 million in comparison to approximately RMB79.3 million for the corresponding period in 2017, which was contributed by the increase in revenue of all operating segments and particularly the increase in revenue of the OEM business. Due to delay of placing orders by some overseas customers at the end of last year, some orders of the OEM business were delayed to the first half of 2018, resulting to an increase in sales of the OEM business during the Period.

During the Period, the Group continued to focus on the development and improvement of DIY automated vending system, the key machine for the O2O business model, for the sales and distribution of Graphene-based Slippers. In the second half of 2018, by utilizing the resources of distributors, the Group targets to cooperate with young people's favorite brands or brands with numerous stores by placing DIY automated vending system in cooperative stores. In such a way, we can provide customers an interesting on-site customization DIY shopping experience to design their favorite slippers. This cross-over cooperation can reduce the selling cost and can penetrate and expand the PRC market rapidly. Besides, the Group developed graphene-based shoes for pregnant women and targeted to launch to the market in the second half of 2018 by cooperation with hospitals.

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 launched in the PRC market in the first half of 2018. According to test reports issued by PRC government accredited testing centre, the sterilizing chips for air purifiers and air conditioners are proved to be highly effective on reducing formaldehyde, toluene, xylene, volatile organic compounds and escherichia coli phage. 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 demand for environmental protection products like air purifiers and the revenue of sterilizing chips from PRC market would increase in the second half of 2018. For the overseas market, the Group already sent samples to an overseas well-known producer of air conditioning system for testing and recognition. After all the tests are completed, sterilizing chips for air purifiers and air conditioners would be launched in the overseas market through cooperation with this producer.

OTHER INFORMATION

Interim Dividend

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

Corporate Governance

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The audit committee was established by the Board on 8 January 2011 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, effectiveness of the Group's internal audit function and review and monitor appointment of the auditors and their independence.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 30 August 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 Ms. An Na, Mr. Chen Shaohua and Professor Zhao Jinbao.