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China Baofeng (International) Limited

中國寶豐(國際)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2018 amounted to approximately HK\$1,106.6 million, representing an increase of approximately 15.7% from HK\$956.3 million for the year ended 31 December 2017.
- Profit attributable to the owners of the Company for the year ended 31 December 2018 was approximately HK\$532.5 million, representing an increase of approximately 19.1% from HK\$447.1 million the year ended 31 December 2017.
- Earnings per share for the year ended 31 December 2018 was HK87.13 cents (2017: HK78.76 cents).
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of China Baofeng (International) Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,106,643	956,323
Cost of sales		(479,356)	(442,997)
Gross profit		627,287	513,326
Other income, gains and losses		26,483	49,373
Selling expenses		(26,301)	(24,483)
Administrative and other expenses		(79,801)	(69,683)
Finance costs		(5,677)	(9,416)
Profit before taxation	4	541,991	459,117
Income tax expense	5	(9,504)	(12,015)
Profit for the year		532,487	447,102
Other comprehensive (expense) income for the year			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translating foreign operations		(94,339)	68,269
Total comprehensive income for the year		438,148	515,371
Earnings per share – Basic	6	<u>HK87.13 cents</u>	<u>HK78.76 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>NOTES</i>	2018 HK\$'000	2017 HK\$'000
Non-current Assets			
Property, plant and equipment		322,474	253,407
Prepaid rental expenses for photovoltaic facilities	8	–	45,181
Rental deposit		–	2,013
Deferred tax asset		1,316	720
Intangible asset		465	562
		324,255	301,883
Current Assets			
Inventories		33,535	16,433
Trade and other receivables	9	173,867	855,040
Contract assets	10	1,159,209	–
Prepaid rental expenses for photovoltaic facilities	8	41,278	107,018
Pledged bank deposits		1,533	126,747
Bank balances and cash		82,494	60,661
		1,491,916	1,165,899
Current Liabilities			
Trade and other payables	11	129,018	205,022
Provision		15,930	10,503
Amount due to ultimate holding company		8,000	–
Tax payable		3,770	4,979
Bank borrowings	12	–	275,500
		156,718	496,004
Net Current Assets		1,335,198	669,895
Total Assets less Current Liabilities		1,659,453	971,778
Non-current Liability			
Deferred tax liability		232	50
Net assets		1,659,221	971,728
Capital and Reserves			
Share capital	13	6,638	5,677
Reserves		1,652,583	966,051
Total Equity		1,659,221	971,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

China Baofeng (International) Limited (the “**Company**”) was incorporated in the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The immediate and ultimate holding company of the Company is Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao, the chairman and executive director of the Company. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Caymans Islands and Suites 1301-1304, 13/F., Two Pacific Place, 88 Queensway, Admiralty, Hong Kong, respectively.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the “**Group**”) are photovoltaic power generation and design and supply chain of lightings and home furnishing products.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 “Financial Instruments” with HKFRS 4 “Insurance Contracts”
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 15 “Revenue from Contracts with Customers”

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

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. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18, HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources:

- Revenue from photovoltaic power generation
- Sales of lighting products

Information about the Group’s performance obligations and the accounting policy resulting from application of HKFRS 15 in notes 5 and 3, respectively.

Summary of effects arising from initial application of HKFRS 15

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

- For contracts of sales of lighting products that contain warranties, the Group accounts for the warranty in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” 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 sales of electricity, contract assets are recognised for the tariff adjustment receivables from electricity transmitted 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.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK\$'000
Current assets			
Trade and other receivables	855,040	(676,829)	178,211
Contract assets	<u>–</u>	<u>676,829</u>	<u>676,829</u>

* The amount in this column are before the adjustments from the application of HKFRS 9.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK\$'000	Reclassification HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current assets			
– Trade and other receivables	173,867	1,159,209	1,333,076
– Contract assets	<u>1,159,209</u>	<u>(1,159,209)</u>	<u>–</u>

Impact on the consolidated statement of cash flows

	As reported HK\$'000	Reclassification HK\$'000	Amounts without application of HKFRS 15 HK\$'000
(Decrease) increase in rental deposit and trade and other receivables	(4,457)	558,647	554,190
Increase in contract assets	<u>558,647</u>	<u>(558,647)</u>	<u>–</u>

As at 31 December 2018, an amount of HK\$1,159,209,000 in respect of tariff adjustment receivables was classified as contract assets and the amount would have been included in trade and other receivables without application of HKFRS 15.

2.2 HKFRS 9 “Financial Instruments”

In the current year, 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, if any, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Summary of effects arising from initial application of HKFRS 9

The directors of the Company considered the application of HKFRS 9 has no material impact on the measurement of financial assets at the date of initial application, 1 January 2018.

Below illustrates the assessment of 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 year, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables and contract assets. Trade receivables and contract assets have been assessed individually.

Loss allowance for other financial assets at amortised cost mainly comprise of other receivables, pledged bank deposits and bank balances, and are measured on 12-month ECL (“**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.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and the interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at costs and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing cash flows.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$13,657,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposit paid of HK\$2,013,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments included in the carrying amount of right-of-use assets.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	2018 HK\$’000	2017 HK\$’000
Revenue from photovoltaic power generation (<i>note</i>)		
– Sales of electricity	183,012	143,545
– Tariff adjustment (<i>note</i>)	478,600	391,083
Sales of lighting products	445,031	421,695
	1,106,643	956,323

Note: As stated in sales contract, revenue from photovoltaic power generation included tariff adjustment from the state grid company in the People's Republic of China (the “**PRC**”) based on the prevailing nationwide government policies on renewable energy for solar power plants.

For photovoltaic power generation, revenue for the year is recognised when electricity is generated and transferred to customer.

For sales of lighting products, revenue for the year is recognised at a point in time when the control of goods has transferred, being when the goods have been transferred to the customer's specific location.

All sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

The Group's operating and reportable segments under HKFRS 8 “Operating Segments” 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, furniture set and other home accessory products (“**sales of lighting products**”).

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

Segment revenue and results

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

For the year ended 31 December 2018

	Photovoltaic power generation <i>HK\$'000</i>	Sales of lighting products <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>661,612</u>	<u>445,031</u>	<u>1,106,643</u>
Segment profit	<u>559,308</u>	<u>7,343</u>	566,651
Unallocated income			1,146
Unallocated expenses			
– Administrative and other expenses			(20,129)
– Finance costs			<u>(5,677)</u>
Profit before taxation			<u>541,991</u>

For the year ended 31 December 2017

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

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

Geographical information

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

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

	Revenue from external customers		Non-current assets (other than deferred tax asset)	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	–	–	3,412	4,761
PRC	661,612	534,628	317,649	294,040
United States of America	441,490	416,704	1,878	2,362
Canada	3,264	4,320	–	–
Others	277	671	–	–
	<u>1,106,643</u>	<u>956,323</u>	<u>322,939</u>	<u>301,163</u>
Total revenue/non-current assets	1,106,643	956,323	322,939	301,163

Information about major customers

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A (<i>note</i>)	661,612	534,628
Customer B (<i>note</i>)	181,693	136,853
Customer C (<i>note</i>)	<u>111,820</u>	<u>138,966</u>

Note: The revenue from Customer A was derived from photovoltaic power generation and Customers B and C were derived from sales of lighting products.

4. PROFIT BEFORE TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration		
Salaries and other benefits	61,456	47,047
Retirement benefits schemes contributions	1,495	1,514
	<u>62,951</u>	<u>48,561</u>
Allowance for obsolete and slow-moving inventories	466	25
Amortisation of intangible asset	97	97
Auditor's remuneration	1,260	1,200
Cost of inventories recognised as expenses	357,721	333,432
Depreciation of property, plant and equipment	10,801	6,643
Design and sampling costs, including staff costs of HK\$4,127,000 (2017: HK\$4,165,000)	7,438	7,412
Operating lease rentals		
– rented premises	14,378	14,938
– photovoltaic facilities	92,679	88,401
and after crediting:		
Gain on disposal of property, plant and equipment	<u>76</u>	<u>–</u>

5. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current taxation:		
– Hong Kong Profits Tax	3,420	5,606
– PRC Enterprise Income Tax (“EIT”)	2,777	2,836
– Withholding tax in the PRC	2,045	2,116
– Overseas taxation	2	2
	<u>8,244</u>	<u>10,560</u>
(Over)underprovision in prior years:		
– Hong Kong Profits Tax	(30)	(41)
– EIT	–	1,276
– Withholding tax in the PRC	2,201	–
– Overseas taxation	(497)	–
	<u>1,674</u>	<u>1,235</u>
Deferred taxation (credit) charge	<u>(414)</u>	<u>220</u>
Total	<u>9,504</u>	<u>12,015</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

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

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

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$532,487,000 (2017: HK\$447,102,000) and the weighted average number of 611,161,000 ordinary shares (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 the years ended 31 December 2018 and 2017.

7. DIVIDEND

The Board has resolved not to recommend any final dividend for the year ended 31 December 2018 (2017: nil).

8. PREPAID RENTAL EXPENSES FOR PHOTOVOLTAIC FACILITIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Amounts of prepaid rental expenses for photovoltaic facilities analysed as:		
Current	41,278	107,018
Non-current	—	45,181
	<u>41,278</u>	<u>152,199</u>

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

9. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	149,819	155,709
Less: Allowance for doubtful debts	<u>(823)</u>	<u>(823)</u>
	148,996	154,886
Tariff adjustment receivables (<i>note a</i>)	—	676,829
Bills receivables (<i>note b</i>)	12,159	1,307
Other receivables and prepayment	<u>12,712</u>	<u>22,018</u>
	<u>173,867</u>	<u>855,040</u>

Notes:

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

In the opinion of the directors of the Company, the revenue recognition of tariff adjustment is proper based on their judgement and taking into account the opinion from the Group's PRC legal advisor, that the Group's operating solar power plant has qualified for registration in the 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.

Upon application of HKFRS 15 on 1 January 2018, tariff adjustment receivables was reclassified as "Contract assets" as required by HKFRS 15 and is disclosed in note 10.

- (b) All bills received by the Group are within a maturity period of less than one year.

The Group allows credit period with a range from 30 to 90 days to its customers. A longer credit period may be granted to large or long established customers with good payment history. The following was an aged 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.

	2018 HK\$'000	2017 HK\$'000
0 to 30 days	53,031	54,243
31 to 60 days	32,343	31,557
61 to 90 days	22,608	34,855
Over 90 days	41,014	34,231
	148,996	154,886

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

10. CONTRACT ASSETS

As at 31 December 2018 and 1 January 2018, the contract assets represent the tariff adjustment receivables amounting to HK\$1,159,209,000 and HK\$676,829,000, respectively. The amount would be received based on the prevailing national government policies on renewable energy. The contract assets are transferred to trade receivable when the Group's respective operating solar farm is registered in the Catalogue pursuant to prevailing national government policies on renewable energy for solar farms. As the collection of tariff adjustment receivables is expected in the normal operating cycle, which may be delayed to March 2020, they are classified as current assets. Please refer to note 9 for details of tariff adjustment receivables.

11. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	67,261	67,282
Bills payable for purchase of property, plant and equipment	1,533	95,783
Accrued sales commission	701	617
Construction payables	39,196	29,918
Other payables and accruals	20,327	11,422
	<u>129,018</u>	<u>205,022</u>

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 the invoice date at the end of the reporting period:

	2018 HK\$'000	2017 HK\$'000
0 to 30 days	44,091	35,215
31 to 60 days	19,602	23,772
61 to 90 days	1,371	7,787
Over 90 days	2,197	508
	<u>67,261</u>	<u>67,282</u>

12. BANK BORROWINGS

	2018 HK\$'000	2017 HK\$'000
The carrying amount of the secured bank borrowings that contains a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	<u>–</u>	<u>275,500</u>

13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2017, 31 December 2017 and 31 December 2018	<u>800,000,000</u>	<u>8,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 January 2017 and 31 December 2017	<u>567,696,000</u>	<u>5,677</u>
Issue of ordinary shares	<u>96,150,000</u>	<u>961</u>
At 31 December 2018	<u>663,846,000</u>	<u>6,638</u>

During the year, 96,150,000 ordinary shares with par value of HK\$0.01 per share of the Company have been placed to its ultimate holding company, Fung Teng Enterprises Limited, at the price of HK\$2.6 per share. The shares issued rank pari passu in all respects among themselves and with the existing issued shares.

14. PLEDGE OF ASSETS

As at 31 December 2018, no bank deposits (2017: RMB25,700,000 (equivalent to HK\$30,964,000)) was pledged to a bank to secure bank borrowings of the Group and bank deposits of RMB1,349,000 (equivalent to HK\$1,533,000) (2017: RMB79,500,000 (equivalent to 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\$692,000 (31 December 2017: HK\$768,000) was pledged to a bank to secure banking facilities granted to the Group.

15. EVENT AFTER THE REPORTING PERIOD

On 23 March 2019, a wholly-owned subsidiary of the Company, Ningxia Baofeng Photovoltaic Power Generation Company Limited (“**Baofeng Photovoltaic**”), entered into a sale and purchase agreement (“**Sale and Purchase Agreement**”) with the Group's supplier of photovoltaic facilities (“**Yinchuan Binhe**”), an independent third party, pursuant to which Baofeng Photovoltaic has conditionally agreed to purchase and Yinchuan Binhe has conditionally agreed to sell the photovoltaic facilities (the “**Equipment**”) at the consideration of RMB2,398,154,000 (tax inclusive) (equivalent to approximately HK\$2,808,142,000). The Equipment is solar power generation equipment which has been leased to Baofeng Photovoltaic by Yinchuan Binhe since its acquisition of the Equipment and has been used by the Group in the project for photovoltaic business operations since the commencement of the project in 2016.

In addition, on 23 March 2019, Baofeng Photovoltaic as lessee entered into a finance lease agreement (“**Finance Lease Agreement**”) with Huaxia Financial Leasing Co., Ltd. (華夏金融租賃有限公司) (the “**Lessor**”), pursuant to which the Lessor has conditionally agreed to pay RMB1,700,000,000 (equivalent to approximately HK\$1,990,632,000) of the consideration under the Sale and Purchase Agreement to Yinchuan Binhe, upon which the Lessor will take ownership of the Equipment. The Lessor will lease back the Equipment to Baofeng Photovoltaic for a principal lease amount of RMB1,700,000,000 to be paid by monthly instalments (plus interests) commencing after a grace period which will expire by 28 January 2021, with the last payment to be made by 28 January 2031.

As an ancillary arrangement to the proposed acquisition under the Sale and Purchase Agreement, on 23 March 2019, Baofeng Photovoltaic and Yinchuan Binhe also entered into an assignment agreement, pursuant to which Yinchuan Binhe has agreed that within one month after receiving the first payment of the consideration under the Sale and Purchase Agreement from the Lessor, Yinchuan Binhe will pay an amount of RMB300,000,000 (equivalent to approximately HK\$351,288,000) to Baofeng Photovoltaic in cash, and in return Baofeng Photovoltaic has agreed to assign the tariff adjustment receivables in the amount of RMB300,000,000 to Yinchuan Binhe effective on the date when Baofeng Photovoltaic receives the aforesaid cash payment.

These transactions are subject to the approval of the shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Photovoltaic Power Generation Industry

The photovoltaic power generation market in the PRC has experienced a negative impact from a notice issued by the National Development and Reform Commission of the People's Republic of China (the “**PRC**”), Ministry of Finance of the PRC and the National Energy Administration (the “**NEA**”) in relation to photovoltaic power generation in 2018 (關於二零一八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 affect 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 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 September 2018, the United States imposed additional 10% tariff on about US\$200 billion worth of goods imported from the PRC which included lighting products. The tariff rate was originally scheduled to increase to 25% starting from 1 January 2019. Nonetheless, as at the date of this announcement, the effective date for the increase is not finalised.

Should the increase in tariff comes into force, it is highly likely to have an adverse effect on the profitability of the Group's lighting products. It is likely 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 lessen any negative effect on its performance and results of operations.

BUSINESS REVIEW

For the year ended 31 December 2018, the business of the Group has been integrated into two segments, which are (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**").

Attributable to the contribution of the Photovoltaic Power Generation Business for the year under review, the Group's operation recorded an increase in both revenue and profitability for the year ended 31 December 2018. For the year ended 31 December 2018, the Group's revenue increased by approximately 15.7% to approximately HK\$1,106.6 million while profit attributable to the owners of the Company increased by approximately 19.1% to approximately HK\$532.5 million.

Photovoltaic Power Generation Business

During the year 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 of its own infrastructure and purchased equipment for the Yinchuan Project since December 2017 and the development was completed in 2018. Accordingly, the photovoltaic power generation output capacity from the Yinchuan Project had been increased from 350 megawatt in 2017 to 390 megawatt by the end of 2018.

As confirmed by the State Grid Corporation of China, for the year ended 31 December 2018, the Group has generated an aggregate of 763.8 million kWh power and the Photovoltaic Power Generation Business continued to be the main source of the revenue of the Group, accounting for approximately 59.8% (31 December 2017: 55.9%) of the Group's total revenue for the year ended 31 December 2018. In addition, the Photovoltaic Power Generation Business continued to be the key growth driver of the profit of the Group, contributing to approximately 98.7% of the Group's total segment profit for the year ended 31 December 2018 (31 December 2017: 95.1%).

The Group's revenue from the Photovoltaic Power Generation Business for the year ended 31 December 2018 was approximately HK\$661.6 million, which represented an increase of approximately 23.8% from the revenue generated for the corresponding period in 2017 (31 December 2017: HK\$534.6 million). The segment profit margin of the Photovoltaic Power Generation Business was approximately 84.5% for the year ended 31 December 2018 (31 December 2017: 87.1%), and the segment profit increased by approximately 20.2% to approximately HK\$559.3 million (31 December 2017: HK\$465.5 million).

Lighting Products Business

The Group's revenue from the Lighting Products Business for the year ended 31 December 2018 was approximately HK\$445.0 million (31 December 2017: HK\$421.7 million), contributing to approximately 40.2% (31 December 2017: 44.1%) of the Group's total revenue, and representing an increase of 5.5% from the revenue generated in the corresponding period in 2017. The increase was due to the increased demand of our lighting products in view of the expected increase of US tariff to 25% in 2019. 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 1.6% for the year ended 31 December 2018 (31 December 2017: 5.7%) and the segment profit decreased by approximately 69.5% to approximately HK\$7.3 million (31 December 2017: HK\$24.1 million).

OUTLOOK AND PROSPECTS

Photovoltaic Power Generation Business

The Group would apply for the Yinchuan Project to be enlisted on the upcoming batch of the Reusable Energy Tariff Subsidy Catalogues (可再生能源電價附加資金補助目錄). If the application is successful, the Board expects to receive settlements of tariff adjustment receivables from the PRC Government, which will improve the liquidity of the Group.

In 2019, 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

In 2019, it is expected that the Lighting Products Business will be adversely affected by the potential increased US tariff, intensified competition in its principal markets, rising costs of labour and raw materials. 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 year ended 31 December 2017 and 2018:

	For the year ended 31 December							
	2018				2017			
	Revenue	% of Revenue	Segment profit	Segment profit margin	Revenue	% of Revenue	Segment profit	Segment profit margin
	(HK\$'000)			(%)	(HK\$'000)			(%)
Photovoltaic Power Generation	661,612	59.8	559,308	84.5	534,628	56	465,454	87.1
Sales of lighting products	445,031	40.2	7,343	1.6	421,695	44	24,078	5.7
Total	<u>1,106,643</u>	<u>100</u>	<u>566,651</u>	<u>51.2</u>	<u>956,323</u>	<u>100</u>	<u>489,532</u>	<u>51.2</u>

Revenue

During the year ended 31 December 2018, revenue of the Group was derived from the Photovoltaic Power Generation Business and Lighting Products Business amounting to approximately HK\$1,106.6 million, representing an increase of approximately 15.7% from approximately HK\$956.3 million for the year ended 31 December 2017. The increase in revenue was mainly attributable to revenue contribution from the Photovoltaic Power Generation Business.

Gross profit and gross profit margin

During the year ended 31 December 2018, the gross profit of the Group increased by approximately 22.2% from approximately HK\$513.3 million for the corresponding period in 2017 to approximately HK\$627.3 million. The gross profit margin of the Group improved from approximately 53.7% for the year ended 31 December 2017 to approximately 56.7% 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 year ended 31 December 2018, the total operating cost increased to approximately HK\$106.1 million, representing an increase of approximately 12.7% from approximately HK\$94.2 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\$5.7 million for the year ended 31 December 2018 (31 December 2017: HK\$9.4 million). The decrease in finance costs was primarily due to full repayment of bank borrowings during the year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company of approximately HK\$532.5 million was recorded for the year ended 31 December 2018, as compared with a profit of approximately HK\$447.1 million attributable to owners of the Company for the corresponding period in 2017. Earnings per share was HK87.13 cents for the year ended 31 December 2018, as compared with earnings per share of 78.76 HK cents for the corresponding period in 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, cash and cash equivalents of the Group were approximately HK\$82.5 million, representing an increase of 36.0% 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 borrowings and a decrease in bills payable.

For the year ended 31 December 2018, the Group's primary source of funding included cash generated from its operating activities, equity financing activities and bank borrowings.

As at 31 December 2018, the Group had no bank borrowing (31 December 2017: HK\$275.5 million). The Group's current ratio (current asset divided by current liabilities) was 9.5 times as at 31 December 2018, which was improved from 2.4 times as at 31 December 2017.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 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 the 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 cash and cash equivalents and pledged deposits; and (ii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 31 December 2018, net gearing ratio was not presented as the Group had net cash (in excess of debt) (31 December 2017: 18.9%). This ratio is based on bank borrowings and bills payable less cash and cash equivalents and pledged bank deposit divided by total equity.

As at 31 December 2018, the Group had no interest-bearing bank borrowing (31 December 2017: HK\$275.5 million, which carried interest at the Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.7% per annum to HIBOR plus 2.95% per annum).

As at 31 December 2018, bills payable amounting to RMB1.3 million (equivalent to approximately HK\$1.5 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK\$95.8 million)) were secured by bank deposits of RMB1.3 million (equivalent to approximately HK\$1.5 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK\$95.8 million)).

As at 31 December 2018, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

PLACING OF SHARES UNDER SPECIFIC MANDATE

On 24 May 2018, the Company and Fung Teng Enterprises Limited (“**Fung Teng**”), a company wholly owned by Mr. Dang Yanbao, Chairman and executive Director of the Company, entered into a subscription agreement (“**Subscription Agreement**”) pursuant to which Fung Teng has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 96,150,000 Shares (“**Subscription Shares**”) at HK\$2.60 per Subscription Share (the “**Subscription**”).

The closing price of the Shares on 24 May 2018, being the date on which the terms of the issue were fixed, was HK\$3.00 per Share as quoted on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The aggregate nominal value of the Subscription Shares was HK\$961,500 and the net issue price per Subscription Share was approximately HK\$2.59.

As stated in the 2017 annual report of the Company, as at 31 December 2017, the interest-bearing bank borrowings of the Group that were provided by independent financial institutions and will become due within a year was HK\$275.5 million, and the interest rate is based on HIBOR. The net gearing ratio of the Group was 18.9% as at 31 December 2017 and the interest expenses for the financial year ended 31 December 2017 amounted to approximately HK\$9.4 million. In view of the potential increasing trend of HIBOR, the Directors considered that the Subscription would enable the Group to utilise the proceeds of the Subscription to repay the existing bank borrowings of the Group, hence reduce its finance costs, lower the net gearing ratio, increase the profitability and strengthen the financial position of the Group.

The gross proceeds of the Subscription were estimated to be HK\$249,990,000, and the net proceeds of the Subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the Subscription Agreement and the related documents) were HK\$248,990,000 and all of the net proceeds were intended to be used for repayment of the existing interest-bearing loan in the principal amount of HK\$250.0 million. As at 31 December 2018, the loan of HK\$250.0 million was fully repaid by the Company.

On 20 July 2018, all the conditions precedent of the Subscription were fulfilled and the Subscription Shares have been allotted and issued to Fung Teng.

The Directors shall review the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the Board, the Group will maintain an appropriate capital structure accordingly.

THE GROUP'S EMOLUMENT POLICY

The Directors' fees are determined by the Board as authorized by the Shareholders in the annual general meeting. The Board shall consider the recommendation of the remuneration committee of the Company ("**Remuneration Committee**") with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each executive Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the Board with reference to the recommendation of the Remuneration Committee.

As at 31 December 2018, the Group has a total of nine (31 December 2017: nine) Directors and employed 214 (31 December 2017: 206) employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$63.0 million for the year ended 31 December 2018 (31 December 2017: HK\$48.6 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group also provided discretionary bonus, medical insurance and provident fund to employees. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for Shares for rewarding them for their contributions to the Group and providing incentives to them to optimize their future contributions to the Group. Up to 31 December 2018, no share option has been granted under the share option scheme.

CONTINGENT LIABILITIES

As at 31 December 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 the development had completed in 2018. For the year ended 31 December 2018, RMB77.7 million has been invested in this regard. The Group's revenue from the Photovoltaic Power Generation Business increased by approximately 23.8% to approximately HK\$661.6 million for the year ended 31 December 2018, which was partly attributable to the addition of such 40 megawatt output capacity. Save as disclosed, the Group did not have any other significant investments as at 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the positive development of the Photovoltaic Power Generation Business, the Group may from time to time consider appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 31 December 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 (the “**Listing Rules**”) as and when appropriate.

MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2018, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

CHARGES ON ASSETS

As at 31 December 2018, bank deposits of RMB1.3 million (equivalent to approximately HK\$1.5 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 HK\$0.7 million (31 December 2017: HK\$0.8 million) were pledged to a bank to secure banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

During the year 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 year ended 31 December 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 year ended 31 December 2018. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

CAPITAL COMMITMENT

As at 31 December 2018, the Group’s capital commitment amounted to approximately HK\$15.2 million (31 December 2017: HK\$44.8 million) in respect of property, plant and equipment contracted but not provided for.

SUBSEQUENT EVENTS

On 23 March 2019, Ningxia Baofeng Photovoltaic Power Generation Company Limited* (寧夏寶豐光伏發電有限公司) (a wholly-owned subsidiary of the Company) (“**Baofeng Photovoltaic**”) as purchaser entered into a sale and purchase agreement (“**Sale and Purchase Agreement**”) with Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司) (the “**Vendor**”), pursuant to which Baofeng Photovoltaic has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the 350-megawatt photovoltaic power generation equipment, the ancillary facilities, the materials in stock, products and accessories of the Yinchuan Project (the “**Equipment**”) at a consideration of RMB2,398,153,588 (tax inclusive) (equivalent to approximately HK\$2,808,142,375). The Equipment is a set of photovoltaic power generation equipment which has been leased to Baofeng Photovoltaic by the Vendor since its acquisition of the Equipment and has been used by the Group in the Yinchuan Project for the photovoltaic business operations of the Group since the commencement of the Yinchuan Project in 2016.

In addition, on 23 March 2019, Baofeng Photovoltaic as lessee entered into a finance lease agreement (“**Finance Lease Agreement**”) with Huaxia Financial Leasing Co., Ltd. (華夏金融租賃有限公司) (the “**Lessor**”), pursuant to which the Lessor has conditionally agreed to pay RMB1,700,000,000 (equivalent to approximately HK\$1,990,632,319) of the consideration under the Sale and Purchase Agreement to the Vendor, upon which it will take ownership of the Equipment. The Lessor will lease back the Equipment to Baofeng Photovoltaic for a principal lease amount of RMB1,700,000,000 to be paid by monthly instalments (plus interests) commencing after a grace period which will expire by 28 January 2021, with the last payment to be made by 28 January 2031. From the lease commencement date up to the end of the grace period, Baofeng Photovoltaic will only have to pay interests on the principal lease amount but will not have to make repayments of the principal lease amount. The indebtedness and obligations of Baofeng Photovoltaic under the Finance Lease Agreement will be guaranteed by the Company and secured by a charge over the entire equity interest in Baofeng Photovoltaic, by a charge over all receivables arising from the income of the Yinchuan Project from time to time (other than the amount of tariff adjustment receivables already assigned by Baofeng Photovoltaic), and by a charge over all power generation equipment and ancillary facilities used in the Yinchuan Project, in favour of the Lessor.

As an ancillary arrangement to the proposed acquisition under the Sale and Purchase Agreement, on 23 March 2019, Baofeng Photovoltaic and the Vendor also entered into an assignment agreement (the “**Assignment Agreement**”), pursuant to which the Vendor has agreed that within one (1) month after receiving the first payment of the consideration under the Sale and Purchase Agreement from the Lessor, it will pay an amount of RMB300,000,000 (equivalent to approximately HK\$351,288,056) to Baofeng Photovoltaic in cash, and in return Baofeng Photovoltaic has agreed to assign the tariff adjustment receivables in the amount of RMB300,000,000 to the Vendor effective on the date Baofeng Photovoltaic receives the aforesaid cash payment.

For details of the Sale and Purchase Agreement, the Finance Lease Agreement and the Assignment Agreement, please refer to the announcement of the Company dated 25 March 2019.

CORPORATE GOVERNANCE REPORT

The Company endeavors to maintain a high standard of corporate governance for the enhancement of its Shareholders' value and provide transparency, accountability and independence. The Company has complied with the required code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the “**Corporate Governance Code**”) during the year ended 31 December 2018, except for the following:

Under code provision C.2.5 of the Corporate Governance Code, an issuer should have an internal audit function. For the year ended 31 December 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 year ended 31 December 2018. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and close supervision by the management can maintain sufficient risk management and internal control of the Group. However, the Board will review the need to set up an internal audit function from time to time and may set up an internal audit team if the need arises.

Save as disclosed above, the Board considers that the Company had complied with the code provisions set out in the Corporate Governance Code of the Listing Rules during the year ended 31 December 2018.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

During the year ended 31 December 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 as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon specific enquiry, each Director confirms that during his tenure in the year ended 31 December 2018, he had fully complied with the required code of conduct and there was no event of non-compliance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) was established on 21 June 2012 with written terms of reference which have been updated from time to time to align with the code provisions set out in the Corporate Governance Code and the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control and risk management system of the Group. During the year ended 31 December 2018 the Audit Committee comprised of three independent non-executive Directors, namely Dr. Tyen Kan Hee, Anthony (chairman of the Audit Committee), Mr. Xia Zuoquan and Mr. Guo Xuewen. The consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 have been reviewed by the Audit Committee.

SCOPE OF WORKS OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2018 ANNUAL GENERAL MEETING

The annual general meeting of the Company (“AGM”) is to be held on 24 May 2019. For the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM, the details of the closure of register of member of the Company and the latest time to lodge transfer documents with the Company's share registrar is set forth as follows:

Book close dates for the 2019 AGM (both days inclusive)	Tuesday, 21 May 2019 to Friday, 24 May 2019
Latest time to lodge transfer documents with the Company's share registrar	Monday, 20 May 2019, 4:00 p.m.
Name and address of the Company's share registrar	Union Registrars Limited Suites 3301-4, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

This announcement of the annual results for the year ended 31 December 2018 is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.baofengintl.com. The annual report for the year ended 31 December 2018 of the Company containing all the information required by the Listing Rules will be despatched to Shareholders and published on the aforesaid websites in due course.

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

Hong Kong, 29 March 2019

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

* For identification purpose only