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 2019

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 2019 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2018 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 2019

	Notes	Six months ended 30 June 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
REVENUE	4	**99,948**	101,726
Cost of sales		**(80,932)**	(76,679)
GROSS PROFIT		**19,016**	25,047
Other net income and gains	4	**988**	1,109
Reversal of impairment loss/(impairment loss) on trade receivables from sales of goods		**191**	(6,013)
Selling and distribution expenses		**(6,494)**	(5,946)
General and administrative expenses		**(24,484)**	(26,657)
Amortisation of intangible assets	9	**(26,360)**	(36,298)
Finance costs	5	**(3,198)**	(2,859)
Fair value loss on convertible notes at fair value through profit or loss	14	**–**	(4,769)
Fair value gain on provision for contingent consideration at fair value through profit or loss	15	**991**	742
LOSS BEFORE TAX	6	**(39,350)**	(55,644)
Income tax (expense)/credit	7	**(905)**	643
LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(40,255)**	(55,001)
LOSS PER SHARE	8		
– Basic (RMB)		**(0.028)**	(0.051)
– Diluted (RMB)		**(0.028)**	(0.051)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**30 June 2019** *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**49,194**	51,415
Right-of-use assets		**28,005**	–
Prepaid land lease payments		**–**	26,223
Intangible assets	*9*	**337,905**	364,246
		415,104	441,884
CURRENT ASSETS			
Other financial assets at amortised cost		**480**	–
Inventories		**23,692**	40,556
Trade receivables	*10*	**20,304**	33,659
Prepayments, deposits and other receivables		**9,592**	7,480
Pledged deposits		**3,855**	–
Cash and bank balances		**32,400**	21,080
		90,323	102,775
Assets classified as held for sale	*11*	**26,000**	26,000
		116,323	128,775
CURRENT LIABILITIES			
Trade and bills payables	*12*	**41,690**	46,806
Deposits received, other payables and accruals		**40,066**	81,808
Short term borrowings	*13*	**121,100**	123,100
Lease liabilities		**591**	–
Income tax payable		**50**	200
		203,497	251,914
NET CURRENT LIABILITIES		**(87,174)**	(123,139)
TOTAL ASSETS LESS CURRENT LIABILITIES		**327,930**	318,745

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Lease liabilities		**838**	–
Provision for contingent consideration	*15*	**3,778**	2,312
Deferred tax liability		**2,568**	2,491
		7,184	4,803
NET ASSETS		**320,746**	313,942
CAPITAL AND RESERVES			
Share capital	*16*	**99,310**	86,758
Reserves		**221,436**	227,184
TOTAL CAPITAL AND RESERVES		**320,746**	313,942

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company									
		Reserves								
	Share capital	Share premium	Contributed surplus	Statutory surplus fund	Exchange fluctuation reserve	Capital redemption reserve	Share options reserve	Accumulated losses	Total reserves	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

For the six months ended 30 June 2019

	Attributable to owners of the Company									
		Reserves								
	Share capital	**Share premium**	**Contributed surplus**	**Statutory surplus fund**	**Exchange fluctuation reserve**	**Capital redemption reserve**	**Share options reserve**	**Accumulated losses**	**Total reserves**	**Total equity**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2019 (audited)	**86,758**	**563,815**	**141,376**	**95,478**	**155**	**524**	**41,800**	**(615,964)**	**227,184**	**313,942**
Loss and total comprehensive expense for the Period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(40,255)**	**(40,255)**	**(40,255)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**–**	**–**	**3,886**	**–**	**3,886**	**3,886**
Subscription of new shares	**12,552**	**30,621**	**–**	**–**	**–**	**–**	**–**	**–**	**30,621**	**43,173**
At 30 June 2019 (unaudited)	**99,310**	**594,436**	**141,376**	**95,478**	**155**	**524**	**45,686**	**(656,219)**	**221,436**	**320,746**

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 engaged in the manufacture and sale of slippers, sandals, casual footwear, graphene-based ethylene-vinyl acetate ("EVA") foam material ("Graphene-based EVA Foam Material") and slippers ("Graphene-based Slippers"), and graphene deodorizing and sterilizing chips for air purifiers and air conditioners ("Sterilizing Chips"). 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 2019 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 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB87,174,000. The Group incurred a loss for the Period of approximately RMB40,255,000. 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. The Group will implement operational plans to control costs and general adequate cash flow from the Group's operations.

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 2019 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2019.

IFRS 16	Leases
IFRIC*-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

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

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases ("IAS 17"), IFRIC 4 Determining whether an Arrangement contains a Lease, Standing Interpretation Committee ("SIC")-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of production plant and premises. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for lease contracts with a lease term of 12 months or less and do not contain a purchase option ("short-term leases") and lease contracts for which the underlying asset is of low value ("low-value assets"). The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

2. BASIS OF PREPARATION *(continued)*

(a) Nature of the effect of adoption of IFRS 16 *(continued)*

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average of the incremental borrowing rates used for determination of the remaining lease payments was 4.95%.

To ease the transition to IFRS 16, the Group applied a practical expedient at the date of initial application of IFRS 16 whereby it elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The effect of adoption of IFRS 16 is as follows:

Impact on the unaudited condensed consolidated statement of financial position as at 1 January 2019:

	Increase/ (decrease) *RMB'000* (unaudited)
Assets	
Non-current assets	
Right-of-use assets	28,204
Prepaid land lease payments	(26,223)
Total non-current assets	1,981
Current assets	
Prepayments, deposits and other receivables	(775)
Total current assets	(775)
Total assets	1,206

2. BASIS OF PREPARATION *(continued)*

(a) Nature of the effect of adoption of IFRS 16 *(continued)*

The effect of adoption of IFRS 16 is as follows: *(continued)*

	Increase/ (decrease) *RMB'000* (unaudited)
Liabilities	
Current liabilities	
Lease liabilities	315
Total current liabilities	315
Non-current liabilities	
Lease liabilities	891
Total non-current liabilities	891
Total liabilities	1,206

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000 (unaudited)
Operating lease commitments as at 31 December 2018	1,652
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(293)
Total undiscounted lease liabilities as at 1 January 2019 for adoption of IFRS 16	1,359
Weighted average incremental borrowing rate as at 1 January 2019	4.95%
Lease liabilities as at 1 January 2019	1,206

2. BASIS OF PREPARATION *(continued)*

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of production plant and premises (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

2. BASIS OF PREPARATION *(continued)*

(c) Amounts recognised in the unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of profit or loss and other comprehensive income

The movements of the carrying amounts of the Group's right-of-use assets and lease liabilities during the Period are set out below:

	Right-of-use assets			
	Land use right	**Buildings**	**Total**	**Lease liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As at 1 January 2019	26,954	1,250	28,204	1,206
Additions	–	448	448	448
Depreciation expenses	(365)	(282)	(647)	–
Interest expenses	–	–	–	41
Payments	–	–	–	(266)
As at 30 June 2019	26,589	1,416	28,005	1,429

The Group recognised rental expenses from short-term lease payments of approximately RMB220,000 for the Period (note 6).

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 Graphene-based Slippers, and Sterilizing Chips (collectively as "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 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, right-of-use assets, prepaid land lease payments, intangible assets, other financial assets at amortised cost, raw materials, work in progress, prepayments, deposits and other receivables, pledged deposits, cash and bank balances and assets classified as held for sale as these assets are managed on a group basis.

Segment liabilities exclude trade and bills payables, certain other payables and accruals, short term borrowings, lease liabilities, 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 2019

	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	**1,110**	**546**	**98,292**	**99,948**
Segment results	**(855)**	**(196)**	**13,573**	**12,522**
Reconciliation:				
Interest income				**45**
Other unallocated net income and gains				**943**
Reversal of impairment loss on trade receivables from sales of goods				**191**
Corporate and other unallocated expenses				**(24,484)**
Amortisation of intangible assets				**(26,360)**
Fair value gain on provision for contingent consideration at FVTPL				**991**
Finance costs				**(3,198)**
Loss before tax				**(39,350)**

As at 30 June 2019

	Boree Products *RMB'000* (unaudited)	Graphene-based Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment assets	**2,551**	**414**	**22,425**	**25,390**
Reconciliation:				
Corporate and other unallocated assets				**480,037**
Assets classified as held for sale				**26,000**
Total assets				**531,427**
Segment liabilities	**300**	**–**	**–**	**300**
Reconciliation:				
Corporate and other unallocated liabilities				**210,381**
Total liabilities				**210,681**

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
Impairment loss on trade receivables from sales of goods				(6,013)
Corporate and other unallocated expenses				(26,657)
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 31 December 2018

	Boree Products *RMB'000* (audited)	Graphene-based Products *RMB'000* (audited)	OEM *RMB'000* (audited)	Total *RMB'000* (audited)
Segment assets	1,580	461	55,716	57,757
Reconciliation:				
Corporate and other unallocated assets				486,902
Assets classified as held for sale				26,000
Total assets				570,659
Segment liabilities	300	–	–	300
Reconciliation:				
Corporate and other unallocated liabilities				256,417
Total liabilities				256,717

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC (principal place of operations)	**4,406**	6,072
United States of America ("US")	**93,398**	93,022
South America	**307**	572
Europe	**415**	314
South East Asia	**161**	975
Other countries	**1,261**	771
	99,948	101,726

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

(b) Non-current assets

	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC (principal place of operations)	**415,103**	441,881

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	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**47,456**	57,306
Customer B	**33,744**	13,931
Customer C*	**6,088**	11,951

* Revenue from Customer C 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	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Manufacture and sale of goods	**99,948**	101,726
Other net income and gains		
Interest income	**45**	23
Sales of scrap material	**261**	290
Rental income	**184**	104
Subsidy income	**498**	576
Exchange gain	**–**	116
	988	1,109

5. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on loans	**3,157**	2,859
Interest expense on lease liabilities	**41**	–
	3,198	2,859

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**81,007**	77,109
Depreciation of property, plant and equipment*	**3,028**	2,923
Depreciation of right-of-use assets*	**647**	–
Amortisation of prepaid land lease payments	**–**	365
Amortisation of intangible assets	**26,360**	36,298
Operating lease rentals* *(Note 2)*	**220**	682
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**25,328**	27,606
Equity-settled share based payments	**3,886**	8,854
Staff welfares	**438**	634
Contributions to retirement benefits schemes	**1,456**	1,500
	31,108	38,594
(Reversal of impairment loss)/impairment loss on trade receivables from sales of goods	**(191)**	6,013
Reversal of write down of inventories	**(75)**	(430)
Loss on disposal of items of property, plant and equipment	**–**	89
Exchange loss/(gain), net	**92**	(116)
Research and development costs**	**4,971**	3,704

* *The cost of inventories sold for the Period includes approximately RMB17,063,000 (2018: RMB20,357,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease rentals 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 (EXPENSE)/CREDIT

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%.

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 (2018: 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	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC Enterprise Income Tax		
Charge/(credit) for the period	**527**	(946)
Under-provisions in prior years	**378**	303
Total tax expense/(credit) for the period	**905**	(643)

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 RMB40,255,000 (2018: RMB55,001,000) and the weighted average number of Shares of 1,420,203,254 (2018: 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 1,304,059,608 Shares in issue as at 1 January 2019 and 182,800,000 Shares issued on 8 March 2019 in respect of the completion of subscription of new shares.

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

During the periods ended 30 June 2019 and 2018, diluted loss per share does not assume the exercise of the Company's share options and/or convertible notes as the exercise of the Company's share options and/or 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 2018	1,587,518	60,000	92,528	1,740,046
Addition during the year	–	–	25	25
At 31 December 2018 and 1 January 2019	1,587,518	60,000	92,553	1,740,071
Addition during the Period	–	–	19	19
At 30 June 2019	1,587,518	60,000	92,572	1,740,090
Accumulated amortisation and impairment:				
At 1 January 2018	1,038,518	4,954	59,593	1,103,065
Provided for the year	65,880	6,606	5,154	77,640
Impairment loss for the year	195,120	–	–	195,120
At 31 December 2018 and 1 January 2019	1,299,518	11,560	64,747	1,375,825
Provided for the Period	19,636	3,303	3,421	26,360
At 30 June 2019	1,319,154	14,863	68,168	1,402,185
Net carrying amount:				
At 30 June 2019	268,364	45,137	24,404	337,905
At 31 December 2018	288,000	48,440	27,806	364,246

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, Sterilizing Chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively as the "Technology Know-how"), which was acquired from Bluestone Technologies (Cayman) Limited ("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 as "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 2019.

(d) In July 2016, the Group engaged several independent third parties in the research and development of manufacturing and application technology of graphene material on Sterilizing Chips, 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 2019. The Sterilizing Chips at the cost of RMB32,500,000 has definite useful lives and is amortised over 5 years using the straight-line method.

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

10. TRADE 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 receivables, net of allowance for credit losses as at the end of the reporting period, based on the invoice dates, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**16,834**	32,877
4 to 6 months	**3,470**	739
7 to 12 months	**–**	43
	20,304	33,659

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. During the period ended 30 June 2019, the transfer of legal title of the disposal asset is in progress. In the opinion of the Directors, the disposal will be completed in 2019.

The major classes of assets classified as held for sale as at 30 June 2019 and 31 December 2018 are as follows:

	RMB'000
Building and leasehold improvements	**44,318**
Right-of-use assets/prepaid land lease payments	**4,926**
Impairment loss for 2017	**(23,244)**
	26,000

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 dates, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**27,735**	31,300
Over 3 months	**13,955**	15,506
	41,690	46,806

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (31 December 2018: six months). The bills payables of RMB12,850,000 (31 December 2018: Nil) were secured by the Group's pledged deposits amounting to RMB3,855,000 as at 30 June 2019 (31 December 2018: Nil).

13. SHORT TERM BORROWINGS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Secured bank loans repayable within one year	**101,000**	106,000
Unsecured loans repayable within one year	**20,100**	17,100
	121,100	123,100

(a) At 30 June 2019 and 31 December 2018, the loans were denominated in Renminbi and bore interest rates ranging from:

Six months ended 30 June 2019	4.35% – 5.22% per annum
Year ended 31 December 2018	4.35% – 5.22% per annum

(b) At 30 June 2019, the secured bank loans of the Group were secured by a pledge of certain of the Group's buildings and land use rights, with carrying amounts of approximately RMB7,517,000 (31 December 2018: RMB9,150,000) and approximately RMB26,589,000 (31 December 2018: RMB26,954,000) respectively. In addition, the bank loans were secured by guarantees provided by an independent third party, a director of the Company and a son of a director of the Company.

14. CONVERTIBLE NOTES

The movements of the Convertible Notes were as follows:

	2015 Convertible Notes (Note a) RMB'000	2016 Convertible Notes (Note a) RMB'000	Total RMB'000
Fair value at 1 January 2018	87,002	57,820	144,822
Fair value loss charged to profit or loss during the year	10,570	7,227	17,797
Conversion of convertible notes during the year	(97,572)	(65,047)	(162,619)
Fair value at 31 December 2018, 1 January 2019 and 30 June 2019	–	–	–
Represented by:			
At 30 June 2019 and 31 December 2018			
Current portion	–	–	–
Non-current portion	–	–	–
	–	–	–

Note:

(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 *(continued)*

Note: (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 on 16 December 2018 and 2 February 2019 respectively, being the third anniversary of the date of issue, in multiples of HK$1,000,000 at a conversion price of HK$0.84 per conversion share subject to adjustments in certain events. The Shares to be allotted and issued upon conversions shall rank pari passu in all respects among themselves and with all other 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.

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.

During the year ended 31 December 2018, the Group received a total of two conversion notices from Bluestone in respect of the exercise of the conversion rights attached to the Convertible Notes in the aggregate principal amount of HK$184,800,000 at the conversion price of HK$0.84 per conversion share. As a result of this conversion, the Company allotted and issued a total of 220,000,000 Shares to Bluestone in December 2018 with additional share capital and share premium of approximately HK$17,193,000 (equivalent to RMB15,129,000) and approximately HK$167,607,000 (equivalent to approximately RMB147,489,000) respectively. No Convertible Notes remain outstanding at 31 December 2018 and 30 June 2019.

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 2019 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 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
As at the beginning of the Period/year	**4,769**	48,302
Fair value gain credited to profit or loss during the Period/year	**(991)**	(43,533)
As at the end of the Period/year	**3,778**	4,769
Current portion included in deposits received, other payables and accruals	**–**	(2,457)
Non-current portion	**3,778**	2,312

The fair value of the provision for contingent consideration is calculated using the discounted cash flow approach (31 December 2018: discounted cash flow approach). The discount rate used in the approach as at 30 June 2019 were ranging from 13.31%-13.49% (31 December 2018: 12.54%-12.72%).

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 2019, with reference to a valuation conducted by an independent professional valuer, Ascent Partners Valuation Service Limited.

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 2018, 31 December 2018, 1 January 2019 and 30 June 2019	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2018	1,084,059,608	10,841	71,629
Conversion of convertible notes *(note 14)*	220,000,000	2,200	15,129
At 31 December 2018	1,304,059,608	13,041	86,758
Completion of subscription of new shares	182,800,000	1,828	12,552
At 30 June 2019	1,486,859,608	14,869	99,310

Pursuant to the Company's announcements dated 9 November 2018, 12 November 2018 and 8 March 2019, two independent subscribers subscribed for a total of 182,800,000 new Shares at a subscription price of HK$0.27 per subscription share which were completed on 8 March 2019 (the "Subscription"). The net proceeds from the Subscription (after deducting the relevant expenses incurred in the Subscription) were approximately HK$49,136,000 (equivalent to approximately RMB42,982,000).

17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**996**	964
Contributions to retirement benefits schemes	**16**	15
	1,012	979

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2019, the Group recorded a decrease in revenue of approximately RMB1.8 million or 1.7% to approximately RMB99.9 million (2018: RMB101.7 million), which was mainly attributable by the decrease in revenue of Graphene-based Products segment. Due to the wireless connection issue of the third generation do-it-yourself ("DIY") automated vending system, the network problem would restrict the choice of locations of the third generation DIY automated vending system until it is alleviated or resolved by the forthcoming release of 5G network services in the PRC. As a result, the management of the Group decided to focus on the fourth generation DIY automated vending system. The prototype of the fourth generation DIY automated vending system started trial run in late December 2018 and was fine-tuned and improved during the first half of 2019. As a result, revenue of Graphene-based Products decreased during the Period.

During the Period, the gross profit margin of the Group decreased to 19.0% (2018: 24.6%), which was mainly attributable to the decrease in gross profit margin of the OEM business segment. Due to the trade friction between the PRC and the US, some customers of the OEM business started to place orders with manufacturers in Southeast Asia and India and reduced orders to the Group during the Period. In response to this, the Group implemented the following measures: i) tried to retain existing customers by reducing the gross profit margin; ii) explored new customers; and iii) accepted new orders even with low gross profit margin. As a result, the gross profit margin of the Group recorded a decrease during the Period.

During the Period, the Group recorded a net loss of approximately RMB40.3 million (2018: RMB55.0 million), which was mainly attributable to (i) amortisation of intangible assets of approximately RMB26.4 million (2018: RMB36.3 million); and (ii) share-based payment expenses of approximately RMB3.9 million (2018: RMB8.9 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.

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2019	2018	Increase/
	RMB'000	*RMB'000*	(decrease)
	(unaudited)	(unaudited)	*% change*
Revenue (Boree Products)	**1,110**	2,147	(48.3)%
Revenue (Graphene-based Products)	**546**	2,294	(76.2)%
Revenue (OEM Business)	**98,292**	97,285	1.0%
Revenue (Total)	**99,948**	101,726	(1.7)%

During the Period, the revenue of the Group decreased by approximately RMB1.8 million or 1.7% to approximately RMB99.9 million (2018: RMB101.7 million). Revenue of Boree Products decreased by 48.3% to approximately RMB1.1 million during the Period (2018: RMB2.1 million) was due to the decrease of online sales.

Revenue of OEM Business slightly increased by 1.0% to approximately RMB98.3 million which was contributed by increase in orders from new customers. However, due to the trade friction between the PRC and the US, the gross profit of the OEM Business decreased to approximately RMB18.5 million for the Period as compared to approximately RMB23.6 million for the corresponding period in 2018. The gross profit decreased was mainly because the Group reduced the gross profit margin in order to retain existing customers and accepted new orders even with low gross profit margin. Tensions stemming from the PRC – US trade friction escalated sharply recently and following the announcement of 15% tariffs, the revenue and gross profit of the OEM business is expected to further decrease. The Company will continue to closely monitor further developments and will adopt various feasible measures in a timely manner to reduce the negative impact of tariffs on the OEM business.

Revenue of Graphene-based Products amounted to approximately RMB0.5 million (2018: RMB2.3 million) during the Period. As the wireless connection issue of the third generation DIY automated vending system restricted the choice of locations and the prototype of the fourth generation DIY automated vending system started trial run in late December 2018 and was fine-tuned and improved during the first half of 2019, the revenue of Graphene-based Products decreased. For other graphene application products, the Group has sent samples of the Sterilizing Chips to an overseas well-known producer of air conditioning system for testing and recognition. As some parameters did not meet the required standard, our research and development team is working on the modification and improvement of the samples and expects to resend the samples for testing soon. As a result, the mass production of the Sterilizing Chips was delayed.

Selling and Distribution Expenses

During the Period, selling and distribution expenses increased by 9.2% to approximately RMB6.5 million as compared with that of last corresponding period (2018: RMB5.9 million), which accounted for 6.5% (2018: 5.8%) of the Group's revenue. The increase was mainly attributable to the allocation of additional resources to retain existing customers and explore new customers by the Group during the Period.

General and Administrative Expenses

General and administrative expenses recorded a decrease of approximately RMB2.2 million or 8.2% to RMB24.5 million for the Period (2018: RMB26.7 million), which was mainly attributable to (i) decrease in share-based payment expenses of approximately RMB5.0 million in relation to the share options granted by the Company net-off by (ii) increase in research and development costs of approximately RMB1.3 million during the Period.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB2.0 million, representing a decrease of RMB10.0 million or 83.4% compared with that of last corresponding period (2018: RMB12.0 million). As at 30 June 2019, cash and bank balances were approximately RMB32.4 million, representing an increase of 53.7% as compared with approximately RMB21.1 million as at 31 December 2018. As at 30 June 2019, around 42.9% and 53.2% of the Group's cash and bank balances were denominated in Renminbi and US dollars. As at 30 June 2019, the short term borrowings of the Group were approximately RMB121.1 million (31 December 2018: RMB123.1 million). All loans were denominated in Renminbi with fixed interest rates and repayable within one year.

Capital Structure

As at 1 January 2019, there were 1,304,059,608 Shares in issue and the paid-up capital amounted to approximately RMB86,758,000. During the Period, the Company issued a total of 182,800,000 Shares to two independent subscribers at the subscription price of HK$0.27 per subscription share. As at 30 June 2019, the Company had 1,486,859,608 Shares in issue and a paid-up capital of approximately RMB99,310,000.

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 2019, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB3.9 million (31 December 2018: Nil). The bank borrowings of the Group were also secured by a pledge of the Group's certain buildings and land use rights with carrying amounts of approximately RMB7.5 million (31 December 2018: RMB9.2 million) and approximately RMB26.6 million (31 December 2018: RMB27.0 million) respectively.

Contingent Liabilities

As at 30 June 2019 and 31 December 2018, there were no material contingent liabilities.

Foreign Exchange Risk

During the Period, the revenue 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 2019, the gearing ratio of the Group was 39.3% (31 December 2018: 44.7%). 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 2019, the Group had a total of approximately 620 employees (31 December 2018: 780 employees), with total staff costs for the Period, including directors' remuneration, amounted to approximately RMB31,108,000 (2018: RMB38,594,000). 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 Subscription of New Shares

Completion of the subscription of 182,800,000 new Shares took place on 8 March 2019 whereby the Company allotted and issued 182,800,000 new Shares to two independent subscribers at a subscription price of HK$0.27 per subscription share. The net proceeds from the Subscription (after deducting the relevant expenses incurred in the Subscription) were approximately HK$49,136,000 (equivalent to approximately RMB42,982,000).

The utilisation of the net proceeds as at 30 June 2019 is set out as follows:

Nature	**Intended use of the net proceeds**	**Amount of the net proceeds utilised during the year ended 31 December 2018**	**Amount of the net proceeds utilised during the period ended 30 June 2019**	**Balance of the net proceeds unutilised as at 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Research and development of carbon application products *(Note 1)*	18,853	–	8,328	10,525
Settlement of payables owing to Bluestone *(Note 2)*	8,678	–	8,678	–
General working capital *(Note 3)*	15,451	540	8,213	6,698
Total:	42,982	540	25,219	17,223

Notes:

1. During the Period, the intended use of the net proceeds of approximately HK$9,971,000 (equivalent to approximately RMB8,678,000) was changed to "Settlement of payables owing to Bluestone" and approximately HK$9,000,000 (equivalent to approximately RMB7,726,000) was changed to "General working capital" respectively from the original intended use for the "Research and development of carbon application products". It is expected that the remaining balance of the net proceeds allocated for the "Research and development of carbon application products" will be utilised in the financial year ending 31 December 2019.

2. During the Period, the intended use of the net proceeds of approximately HK$9,971,000 (equivalent to approximately RMB8,678,000) was changed from "Research and development of carbon application products" to "Settlement of payables owing to Bluestone" and was fully utilised during the Period.

3. During the Period, the intended use of the net proceeds of approximately HK$9,000,000 (equivalent to approximately RMB7,726,000) was changed from "Research and development of carbon application products" to "General working capital". It is expected that the remaining balance of the net proceeds allocated for the "General working capital" will be utilised in the financial year ending 31 December 2019.

BUSINESS REVIEW AND FUTURE PROSPECTS

The revenue of the Group for the Period was approximately RMB99.9 million, representing a decrease of approximately RMB1.8 million in comparison to approximately RMB101.7 million for the corresponding period in 2018, which was mainly due to the decrease in revenue of Graphene-based Products segment. As the wireless connection issue of the third generation DIY automated vending system restricted the choice of locations and the prototype of the fourth generation DIY automated vending system was fine-tuned and improved during the first half of 2019, the revenue of Graphene-based Products for the Period decreased by approximately RMB1.7 million in comparison with the corresponding period in 2018. The modification of the fourth generation DIY automated vending system was nearly completed and expected to launch to the market in the fourth quarter of 2019. The upgraded fourth generation of the DIY automated vending system has the advantages of simple installation, small size, low power consumption and fast printing speed, which can reduce the distribution and operation costs. By placing the fourth generation DIY automated vending system in cooperative stores, we can provide customers an interesting on-site customization DIY shopping experience. This cross-over cooperation can penetrate and expand the PRC market rapidly and most important of all, can foster the popularity of our brand. Besides, the Group started the discussion with hospitals for cooperation on the promotion of graphene-based shoes for pregnant women during the Period and targeted to launch to the market in the second half of 2019.

Moreover, the Group has sent samples of the Sterilizing Chips to an overseas well-known producer of air conditioning system for testing and recognition. As some parameters did not meet the required standard, our research and development team is working on the modification and improvement of the samples and expects to resend the samples for testing soon. After receiving the recognition, the Sterilizing Chips would be launched in the overseas market through cooperation with this producer. Besides, the recognition from the above-mentioned overseas well-known producer of air conditioning system would be a strong evidence of the superior quality of Sterilizing Chips and can greatly assist promotion in the PRC market, therefore the Directors believed that the revenue of Sterilizing Chips would increase.

After paying continuous effort and capital investment in the past few years, the Group gradually transformed from a traditional manufacturing company to a material technology company and started to diversify our business to environmental protection and energy related field. In light of the above, the Group set up a carbon-based energy storage batteries research and development line in the first half of 2019 and first lot of samples were developed and met all the required standards after testing. The Group targeted to find more battery manufacturers in the second half of 2019 to start trial production and prepare for mass production in the coming year. After the scale expansion, the Group would be able to enter the energy storage industry by providing energy storage material, which would become the driving force of higher profit growth for the future.

OTHER INFORMATION

Interim Dividend

The Directors do not recommend the payment of any interim dividend for the Period (for the six months ended 30 June 2018: Nil).

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 2019

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.