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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)

**VERY SUBSTANTIAL ACQUISITION
IN RELATION TO
THE ACQUISITION OF THE TECHNOLOGY
INVOLVING THE ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

THE ACQUISITION

The Board is pleased to announce that after trading hours of the Stock Exchange on 14 October 2015, the Company, the Vendor and the Guarantor entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Technology at a maximum Consideration of RMB1,800 million (equivalent to approximately HK\$2,196 million). The Consideration is to be satisfied as to a maximum of HK\$2,011.20 million in cash and as to HK\$184.80 million by way of issuance of the Convertible Bonds by the Company. Based on the maximum aggregate principal amount of the Convertible Bonds of HK\$184.80 million, the Convertible Bonds are convertible into 220,000,000 Conversion Shares at the initial conversion price of HK\$0.84 (subject to adjustments).

Completion is subject to fulfilment or waiver (as the case may be) of certain conditions precedent as set out in the paragraph headed “Conditions precedent” under the section headed “The Acquisition Agreement” in this announcement.

LISTING RULES IMPLICATIONS ON THE ACQUISITION

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement and Shareholders' approval requirements. The EGM will be convened and held for the purpose of considering and, if thought fit, approving the resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and is required to abstain from voting on the relevant resolution(s) to be proposed at the EGM.

A circular containing, among other things, (i) details of the Acquisition Agreement; (ii) financial information of the Group; (iii) the valuation report of the Technology Know-how and the Exclusive Formula prepared by an independent professional valuer; (iv) the unaudited pro forma financial information of the Group assuming Completion takes place; (v) other information as required under the Listing Rules; and (vi) the notice convening the EGM is expected to be despatched to the Shareholders on or before 16 November 2015 as additional time is required for the Company to prepare relevant information for inclusion in the circular.

As the Acquisition Agreement is subject to a number of conditions precedent, the Acquisition Agreement may or may not become unconditional or be completed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

INTRODUCTION

Reference is made to the announcement of the Company dated 24 November 2014 in relation to the entering into of the letter of intent between the Company and the Vendor in respect of the possible transfer of the proprietary technology of graphene-based disinfection devices and pressure-sensitive sensors for shoes from the Vendor to the Company.

The Board is pleased to announce that after trading hours of the Stock Exchange on 14 October 2015, the Company, the Vendor and the Guarantor entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Technology at a maximum Consideration of RMB1,800 million (equivalent to approximately HK\$2,196 million), which shall be satisfied as to a maximum of HK\$2,011.20 million in cash and as to HK\$184.80 million by way of issuance of the Convertible Bonds by the Company. Based on the maximum aggregate principal amount of the Convertible Bonds of HK\$184.80 million, the Convertible Bonds are convertible into 220,000,000 Conversion Shares at the initial conversion price of HK\$0.84 (subject to adjustments). Details of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date

14 October 2015

Parties

- (i) Baofeng Modern International Holdings Company Limited, being the Purchaser;
- (ii) Bluestone Technologies (Cayman) Limited, being the Vendor; and
- (iii) Mr. Zhuang Chaohui, being the Guarantor to guarantee the obligations of the Vendor under the Acquisition Agreement.

Both the Vendor and the Guarantor were introduced to the Company by the executive Director and vice-chairman of the Company, Mr. Leung Tsz Chung, in 2014 through his business connection. The Vendor is wholly owned by the Guarantor, who is a businessman. For further details on the Vendor, please refer to the section headed “Information on the Vendor” below.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, (i) the Vendor and the Guarantor (being the ultimate beneficial owner of the Vendor) are third parties independent of the Company and its connected persons; and (ii) save for the transactions contemplated under the Acquisition Agreement, none of the Vendor, the Guarantor and their respective associates had any current or prior relationship or business arrangements or transactions with the Company and its connected persons.

Asset to be acquired

Pursuant to the Acquisition Agreement, the asset to be acquired by the Company is the Technology, which relates to certain technological know-how in respect of the application of graphene and includes ten patents and patent applications relating to the manufacturing of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors and the Exclusive Formula. For further details of the Technology, please refer to the section headed “Information on the Technology” below.

The Company shall not be obligated to purchase any of the US Patent, the PRC Patents or the Exclusive Formula unless the sale and purchase of the US Patent, the PRC Patents and the Exclusive Formula are completed simultaneously.

Consideration

Pursuant to the Acquisition Agreement, the maximum amount of the Consideration in the sum of RMB1,800 million (equivalent to approximately HK\$2,196 million) shall be payable by the Company to the Vendor or its nominee(s) as follows:

- (i) the first instalment in the amount of RMB450,000,000 (representing 25% of the maximum Consideration) shall be payable by the Company on the Completion Date, which shall be satisfied as to RMB359,114,754 in cash and as to RMB90,885,246 by issuing the Convertible Bonds with principal amount of HK\$110,880,000 (based on the agreed exchange rate of RMB1:HK\$1.22) to the Vendor or its nominee(s);
- (ii) upon fulfilment of the Second Instalment Conditions (as defined below), the second instalment in the amount of RMB450,000,000 (representing 25% of the maximum Consideration) shall be payable by the Company, of which (a) RMB389,409,836 shall be paid in cash within 6 months after fulfilment of the Second Instalment Conditions; and (b) RMB60,590,164 shall be satisfied by issuing the Convertible Bonds with principal amount of HK\$73,920,000 (based on the agreed exchange rate of RMB1:HK\$1.22) to the Vendor or its nominee(s) within 15 Business Days after the fulfilment of the Second Instalment Conditions;
- (iii) upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions (as defined below), the third instalment in the amount of RMB270,000,000 (representing 15% of the maximum Consideration) shall be payable by the Company in cash to the Vendor or its nominee(s) within 15 Business Days after the fulfilment of the Third Instalment Conditions; and
- (iv) upon Completion and the fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the remaining balance of not more than RMB630,000,000 (representing 35% of the maximum Consideration) shall be payable by the Company in cash to the Vendor or its nominee(s) in accordance with the EBITDA Sharing Mechanism (as defined below).

Second Instalment 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 the Vendor 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 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.

The Vendor should procure the Second Instalment Conditions to be fulfilled within 6 months after the Completion Date (or such later date as the Company may agree). In the event that the Second Instalment Conditions cannot be fulfilled within 6 months after the Completion Date (or such later date as the Company may agree), the Company is not obligated to pay the second instalment of the Consideration of RMB450,000,000.

Third Instalment Conditions

“**Third Instalment Conditions**” refer to (a) the accumulated turnover of the SPV 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).

The Vendor should procure the Third Instalment Conditions to be fulfilled within 9 months after the Completion Date (or such later date as the Company may agree). In the event that (i) the Second Instalment Conditions cannot be fulfilled within 6 months after the Completion Date (or such later date as the Company may agree), or (ii) the Third Instalment Conditions cannot be fulfilled within 9 months after the Completion Date (or such later date as the Company may agree), the Company is not obligated to pay the third instalment of the Consideration of RMB270,000,000.

EBITDA Sharing Mechanism

Pursuant to the Acquisition Agreement, upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the Vendor is entitled to share 35% of the EBITDA of the SPV for the Interim Financial Period during which 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 the Vendor or its nominee(s) within 15 Business Days after the issuance of such certificate. Any license fees for the Technology 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.

The Company intends to finance the Consideration by the internal resources of the Company. As disclosed in the interim report of the Company for the six months ended 30 June 2015, the Company had cash and bank balances of approximately RMB1,168 million as at 30 June 2015. The Company considers that it has sufficient resources to settle the cash portion of the first instalment, the second instalment and the third instalment of the Consideration. The remaining balance of not more than RMB630,000,000 shall only be payable by the Company in cash to the Vendor or its nominee(s) from the EBITDA of the SPV in relevant periods in accordance with the EBITDA Sharing Mechanism.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among other things, a valuation of the Technology Know-how and the Exclusive Formula as at 30 June 2015 of approximately RMB2,592 million prepared by Ascent Partners, an independent professional valuer.

The Company will only acquire the US Patent, the PRC Patents and the Exclusive Formula as a bundle since it considers that an individual patent or the Exclusive Formula cannot generate substantial value to the Company on a standalone basis. Having considered (i) the business of the graphene-based EVA foam material will become a major business segment of the Group when compared to the businesses of graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors; (ii) the Company has been producing EVA foam material for many years and is familiar with the market demand and the business environment of EVA foam material; and (iii) the Company will only start the businesses of graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors in the second half of 2016 and 2017 respectively and thus the business plan has not been drawn up in detail at the current stage, the valuation of the Technology Know-how and the Exclusive Formula only relates to graphene compound additive for EVA foam material. The valuation of the technology know-how in respect of the graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors has not been prepared and considered when determining the Consideration.

Conditions precedent

Completion is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

- (i) the Company being satisfied with the results of its due diligence review on the Technology;
- (ii) all necessary consents, approvals and authorisations required to be obtained in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by the Vendor and the Guarantor;
- (iii) all necessary consents, approvals and authorisations required to be obtained in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by the Company;
- (iv) the Company having obtained a valuation report of the Technology Know-how and the Exclusive Formula (in form and substance satisfactory to the Company) from a firm of independent professional valuers appointed by the Company, with the valuation of the Technology Know-how and the Exclusive Formula to be not less than RMB1,800 million;

- (v) the Company having issued a circular in relation to the Acquisition Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules;
- (vi) the passing of the necessary resolution(s) by the Shareholders at the EGM to be convened and held to approve the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the allotment and issuance of the Conversion Shares);
- (vii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares;
- (viii) the representations, warranties and undertakings given by the Vendor and the Guarantor under the Acquisition Agreement remaining true and accurate in all material respects and not misleading, and there being no other matters which would render any of such representations, warranties and undertakings untrue, inaccurate or misleading;
- (ix) all grants and applications of the US Patent and the PRC Patents remaining in full force and effect, and there being no application or procedure in existence for cancellation or invalidation of the US Patent and the PRC Patents; and
- (x) the execution of the Supply Agreement between the Group and Powerbooster.

The Company may at any time exercise its discretion to waive the conditions set out in (i), (viii), (ix) and (x) by notice in writing to the Vendor. Save for the abovementioned, none of the above conditions can be waived by any other party under the Acquisition Agreement. If the conditions set out above have not been satisfied (or otherwise waived) on or before 4:00 pm on 31 March 2016 (or such later date as the Company and the Vendor may agree in writing), the Acquisition Agreement shall cease and determine, and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

The Acquisition is not conditional on the grant of all PRC Patents. Taking into account that (i) the Company has obtained a legal opinion from a PRC legal adviser which states that pursuant to the Patent Law in the PRC, the grant of the PRC Patents is highly probable given the high novelty and creativity of the technology under the PRC Patents in comparison to the existing technologies; (ii) there are existing business opportunities for the Company to apply the Technology in the production of graphene-based EVA foam material as disclosed in the paragraph headed “Reasons for and benefits of the Acquisition” below; (iii) it may take up to 3 to 4 years for a patent to be granted from the date of filing of application; and (iv) new technologies which may be in direct competition with the Technology may be developed before the grant of all PRC Patents, the Directors consider that it is in the interest of the Company and the Shareholders to seize the business opportunities by acquiring the Technology during the patent application stage instead of acquiring the Technology after the grant of all PRC Patents.

Completion

Completion shall take place at 4:00 p.m. on the 15th Business Day after all the conditions precedent under the Acquisition Agreement having been fulfilled or waived (as the case may be) (or such other date and time as agreed by the Company and the Vendor).

As at the date of this announcement, there is no intention or negotiation to appoint the Guarantor as a Director upon or after Completion.

THE CONVERTIBLE BONDS

Pursuant to the terms of Acquisition Agreement, the Company will issue the Convertible Bonds in the maximum aggregate principal amount of HK\$184,800,000 to the Vendor or its nominee(s) as part of the Consideration upon Completion and fulfilment of the Second Instalment Conditions.

Principal terms

The principal terms of the Convertible Bonds, which have been negotiated on an arm's length basis, are summarised as follow:

Issuer:	the Company
Maximum aggregate principal amount:	HK\$184,800,000
Interest:	the Convertible Bonds shall bear no interest
Maturity date:	the date falling on the third anniversary of the date of issue of the relevant Convertible Bond(s)
Security:	the obligations of the Company under the Convertible Bonds are not secured by any security
Conversion Shares:	based on the maximum aggregate principal amount of the Convertible Bonds of HK\$184.80 million, the Convertible Bonds are convertible into 220,000,000 Conversion Shares at the initial conversion price of HK\$0.84 (subject to adjustments)
Conversion period:	the period commencing from the date of issue of the Convertible Bond(s) up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Convertible Bond(s)

Conversion:

provided that (i) any conversion of the Convertible Bonds does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Convertible Bondholder(s) which exercised the conversion rights, whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bond(s) (if applicable, including any Shares acquired by the parties acting in concert (as defined under the Takeovers Code) with the Convertible Bondholder(s)) represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares at any time in compliance with the Listing Rules, the Convertible Bondholder(s) shall, subject to compliance with the procedures set out in the conditions under the Instrument, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bond(s) registered in its name into Shares provided further that any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bond may be converted. For the avoidance of doubt, the Company shall not take any corporate action to repurchase any Shares which would in effect restrict the Convertible Bondholder(s) to convert the whole or part of the outstanding principal amount of the Convertible Bond(s) registered in its/their name(s) into Shares

Initial conversion price:

HK\$0.84 per Conversion Share, subject to anti-dilutive adjustments upon the occurrence of any of the following events:

- (i) alteration of the nominal amount of the Shares by reason of consolidation, subdivision or reclassification;

- (ii) issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) of Shares credited as fully paid to Shareholders by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) capital distribution to Shareholders being made by the Company;
- (iv) issue of Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price less than 80% of the market price of the Shares;
- (v) issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for Shares, at a consideration per Share which is less than 80% of the market price of the Shares, or the conversion, exchange or subscription rights of any such securities (other than in accordance with the terms applicable thereto) are altered or modified so that the consideration per Share is less than 80% of the market price of the Shares; and
- (vi) issue of Shares being made wholly for cash or issue or grant options, warrants or other rights to subscribe for or purchase Shares, in each case, at a price less than 80% of the market price of the Shares

Ranking:

the Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the relevant Conversion Date as if the Shares issued on conversion had been issued on such date and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant Conversion Date

Transferability: the Convertible Bondholder(s) shall not assign or transfer the Convertible Bond(s) without the prior written consent of the Company, save for where the transfer is made to a wholly-owned subsidiary or the holding company owning the entire issued share capital of such Convertible Bondholder(s), provided that the Convertible Bond(s) will be re-transferred to such Convertible Bondholder(s) immediately upon the transferee ceasing to be the wholly-owned subsidiary or the holding company owning the entire issued share capital of such Convertible Bondholder(s), in which case no prior written consent from the Company shall be required. Provided that the prior written consent of the Company is obtained by the Convertible Bondholder(s), the Convertible Bond(s) may be assigned or transferred in whole or in part (in whole multiples of HK\$1,000,000) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Convertible Bond(s)

Redemption: the Company may at any time before the maturity date, by serving at least fourteen (14) days' prior written notice on the Convertible Bondholders with the total amount proposed to be redeemed from the Convertible Bondholders specified therein, redeem the Convertible Bonds (in whole or in part) at 100% of the principal amount of the Convertible Bonds to be redeemed

Events of default: The Convertible Bondholder(s) may at any time before the maturity date, by serving at least fourteen (14) days' prior written notice on the Company with the total amount proposed to be redeemed specified therein, demand the Company to redeem the Convertible Bonds at par upon the occurrence of any of the following events:

- (i) a default in the payment of principal amount, interest and entitlements due in respect of any of the Convertible Bonds and such default is not cured within ten (10) Business Days;

- (ii) a default by the Company in the performance or observance of any covenant, condition or provision contained in the Instrument or in the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal, premium (if any), interest and entitlements in respect of any of the Convertible Bonds) and such default continues for the period of ten (10) Business Days next following the service by any Convertible Bondholder on the Company of notice specifying brief details of such default and requiring such default to be remedied;
- (iii) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of the Convertible Bondholder(s);
- (iv) an encumbrancer takes possession or a receiver, administrator, manager or similar officer is appointed of the whole or a material part of the assets or undertaking of the Company;
- (v) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the property of the Company and is not discharged within ten (10) Business Days thereof;

- (vi) the Company becomes insolvent or is unable to pay its debts as and when they fall due or stops or suspends making payments (whether principal or interest) with respect to all or any class of debts or the Company shall initiate or consent to or suffer proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or takes any proceeding under any law for a readjustment or deferment of its obligations or make an assignment for the benefit of, or enter into any composition with, its creditors;
- (vii) any other present or future indebtedness of the Company for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default (however called) or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or the Company fails to pay when due any amount payable by it under any present or future guarantee for any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more of the events mentioned above have occurred equals or exceeds HK\$10,000,000 (or its equivalent in another currency);
- (viii) the Company involuntarily ceases or threatens to cease to carry on its business to a material extent or involuntarily changes or threatens to change the nature or scope of its business from that carried on at the issue date of the Convertible Bonds or the Company involuntarily disposes of, or threatens to dispose of, or any governmental or other authority expropriates or threatens to expropriate, all or any substantial part of its business or assets;
- (ix) the Shares cease to be listed on the Main Board of the Stock Exchange or are suspended for the trading on the Stock Exchange for more than ninety (90) consecutive trading days;
- (x) any steps are taken to enforce any security interest over all or any material part of the assets of the Company; and
- (xi) failure by the Company to deliver the Conversion Shares within ten (10) Business Days of when such Conversion Shares are required to be delivered following conversion of a Convertible Bond

Voting rights:	The Convertible Bonds shall not carry any voting rights
Listing:	No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares

Comparison of initial conversion price

The initial conversion price of HK\$0.84 per Conversion Share was determined after arm's length negotiations between the Company and the Vendor taking into account the prevailing market prices of the Shares and based on a discount of 10% to the average of the closing prices of approximately HK\$0.93 per Share for the last 15 consecutive trading days before the Last Trading Day. The initial conversion price also represents:

- (i) a discount of approximately 9.68% to the closing price of HK\$0.93 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 8.70% to the average of the closing prices of approximately HK\$0.92 per Share for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 34.38% to the net asset value per Share of approximately HK\$1.28 (based on the unaudited consolidated net assets of approximately RMB1,120 million (equivalent to approximately HK\$1,366 million) as at 30 June 2015 and 1,067,579,608 Shares in issue as at the date of this announcement).

Conversion Shares

Based on the terms of the Convertible Bonds, a total of 220,000,000 Conversion Shares will be allotted and issued upon full conversion of the Convertible Bonds at the initial conversion price, which represent (i) approximately 20.61% of the existing issued share capital of the Company; and (ii) approximately 17.09% of the issued share capital of the Company as enlarged by the allotment and issuance of the Conversion Shares. The Conversion Shares will be allotted and issued under a specific mandate of the Company to be sought at the EGM.

SUPPLY AGREEMENT

Powerbooster is a company incorporated in the PRC with limited liability and principally engaged in the research, production and application of graphene material, design and mass production of its application products. Powerbooster is the graphene material supplier of the Vendor and has been cooperating with the Vendor and its wholly-owned subsidiary, Bluestone Global Tech Limited, since 2013 in the research and development of the application of graphene in touch panel and battery area. Powerbooster also provides the laboratories to the Vendor for its research and development in the PRC. In 2013, Powerbooster together with Bluestone Global Tech Limited organised a graphene seminar in Hong Kong. Powerbooster engaged Opti-Paint Consulting Co., Ltd. 光繪管理諮詢(上海)有限公司 (formerly known as Opti-Paint Lighting Technology Co., Ltd. 光繪照明(上海)有限公司)(“**Opti-Paint**”) to act as its marketing consultant from April 2013 to March 2014, in which Mr. Leung Tsz Chung, an executive Director, was a legal representative prior to joining the Group. Apart from the above, Powerbooster and its associates do not have other current or prior relationship/business arrangements/transactions with the Vendor, the Guarantor, the Company and their respective connected persons.

As a condition precedent to Completion, the Company and Powerbooster will enter into the Supply Agreement in relation to the exclusive supply of powder-form graphene, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors by Powerbooster to the Company in order to ensure that there will be adequate supply of graphene-based material which is an essential element for the application of the Technology.

Pursuant to the Supply Agreement, Powerbooster undertakes to supply not less than the pre-agreed quantities of the aforesaid graphene-based material to the Company, which were determined based on the business plan prepared by the Company, at a price not exceeding the pre-agreed prices, which were determined based on the market price of similar products, for each of the four years ending 31 December 2019. The pre-agreed quantities of the graphene-based material and the pre-agreed prices for each of the four years ending 31 December 2019 are as follows:

Powder-form graphene:

		2016	2017	2018	2019
Quantity	Kilogram (kg)	28,800	60,000	84,000	120,000
Price	RMB/kg	600	576	552.96	530.84

Graphene deodorizing and sterilizing chips:

		2016	2017	2018	2019
Quantity	Pair (2 pieces)	200,000	1,000,000	2,000,000	6,000,000
Price	RMB/pair	1.33	1.26	1.2	1.14

Graphene-based pressure-sensitive sensors:

		2016	2017	2018	2019
Quantity	Piece	–	100,000	500,000	1,000,000
Price	RMB/piece	–	11.28	10.6	9.97

Powerbooster is not allowed to supply the graphene-based material (as specified in the exclusivity clause under the Supply Agreement) to any third parties or apply the confidential technological know-how and the technology under the US Patent and PRC Patents without the written consent of the Company. Pursuant to the Supply Agreement, Powerbooster shall not disclose any confidential technological information, proprietary technology data, drawings, drafts, plans, models specifications and technological know-how obtained from the Company, directly or indirectly, as a result of the supply of powder-form graphene, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors (the “**Confidential Information**”) to any third parties during the continuance and after the termination of the Supply Agreement. In the event of the termination of the Supply Agreement, Powerbooster shall immediately cease to use such Confidential Information.

The Company has no obligation to purchase the pre-agreed quantities of graphene-based material from Powerbooster and may choose to purchase from other graphene suppliers if the terms offered by such other graphene suppliers are more favorable than those offered by Powerbooster. If the Company purchases the graphene-based material from Powerbooster, the Company should notify Powerbooster the required quantity three months in advance. The Supply Agreement will be effective from the date of execution of the Supply Agreement and will expire on 31 December 2019. The Company and Powerbooster may renew the Supply Agreement upon the expiry date.

Pursuant to the Supply Agreement, Powerbooster shall only be responsible for the supply of graphene-based material. The Company will not disclose the Exclusive Formula to Powerbooster and the Group will apply the Exclusive Formula utilising the graphene-based material to produce the graphene compound additive for the production of the graphene-based EVA foam material by itself. The Company considers that Powerbooster will not be able to manufacture the graphene compound additive or graphene-based EVA foam material without the knowledge of the Exclusive Formula. In addition, the patented technology for the production of graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors will be protected by the relevant patent laws and regulations of the PRC. Powerbooster will not be allowed to apply the patented technology in the production of any products without the consent of the Group. The Supply Agreement also provides that the ownership and the related rights of the technological improvement made by Powerbooster based on the patented technology and the Confidential Information shall belong to the Company. In view of the above, the Company considers that there is sufficient protection for the Technology and the related technological know-how in the supply arrangement with Powerbooster.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Powerbooster and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

DEED OF CONFIDENTIALITY

The Company, the Vendor and the Guarantor will enter into a deed of confidentiality (the "**Deed of Confidentiality**") upon Completion pursuant to which the Vendor and the Guarantor unconditionally and irrevocably undertake that they will collectively and individually not to, and will procure their respective close associates, directors, senior officers, representatives, agents, financiers or advisers, not to use any information relating to the commercial secrets, confidential information, patented technology and invention information in respect of the Technology and any information relating to the Group, or will not disclose, convey, incur, divulge, inform, announce, publish, impart, transfer to or procure any third parties to learn, apply or take away any commercial secrets, confidential information, patented technology and invention information in respect of the Technology, accounts, financial information, commercial information and any information relating to the Group, which may cause damage to the interest of the Group unless prior written consent is obtained from the Group or according to the terms of the licensing agreement (as described hereunder), save for the information that is already in the public domain other than as a result of a breach by the Vendor and/or the Guarantor of the Deed of Confidentiality.

In the event that the Vendor and/or the Guarantor do not comply with the terms of the Deed of Confidentiality, the Company may seek damages or injunctive relief against the Vendor and/or the Guarantor.

Since (i) the Vendor and the Guarantor has a confidentiality obligation in respect of the Technology under the Deed of Confidentiality; and (ii) the application of the Exclusive Formula to produce graphene-based EVA foam material will also involve the use of the Technology Know-how which is protected by the relevant patent laws, the Company considers that it is unlikely that a third party will have the knowledge of the Exclusive Formula and be able to make minor modifications of the Exclusive Formula to produce graphene-based EVA foam material without infringing the PRC Patents in relation to the Technology Know-how.

DEED OF NON-COMPETITION

The Company, the Vendor and the Guarantor will enter into a deed of non-competition (the “**Deed of Non-Competition**”) upon Completion pursuant to which the Vendor and the Guarantor undertake to the Company that the Vendor and the Guarantor shall not and shall procure their respective close associates perpetually not to, in any geographical locations (i) engage in any businesses of any members of the Group from time to time relating to the use of the Technology on shoes, clothes, other wearable devices and foam material, or any businesses which is or may be in competition with the businesses relating to the use of the Technology on shoes, clothes, other wearable devices and foam material (the “**Restricted Businesses**”); (ii) be directly or indirectly interested in the Restricted Businesses (other than holding not more than 5% shares in any listed companies); (iii) act for any positions, including shareholders, partners, directors, supervisors, managers, employees, agents and consultants of a corporation which operates and produces same type of products or provides same kind of services as the Group; (iv) take any actions to intervene or damage any business activities of the Group, and diminish the business and financial reputation of the Group; (v) employ any candidates who had been the directors, managers, employees or consultants of the Group or anyone who may possess confidential information or commercial secrets relating to the Restricted Businesses; or (vi) contact any customers of any member companies of the Group unless such contacts are arranged by the Group or prior written consent is obtained from the Group.

Pursuant to the deed of assignment to be entered into between the Vendor as assignor and the Company as assignee in relation to the assignment of the Exclusive Formula at Completion (the “**Assignment**”), the Vendor shall not and shall procure its close associates not to continue to use the Exclusive Formula in any geographical locations after the execution of the Assignment. In addition, pursuant to the Deed of Non-Competition, the Vendor and the Guarantor shall not and shall procure their respective close associates not to in any geographical locations, among other matters, engage in the Restricted Business. As such, the Company considers that neither the Vendor nor the Guarantor will be able to apply the Exclusive Formula to produce graphene-based EVA foam materials and compete with the Group.

In the event that the Vendor and/or the Guarantor do not comply with the terms of the Deed of Non-Competition or the Assignment, the Company may seek damages or injunctive relief against the Vendor and/or the Guarantor.

LICENSING AGREEMENT

The Company and the Vendor will execute a licensing agreement upon Completion pursuant to which the Company shall, at a nominal license fee of HK\$1, grant an irrevocable license to the Vendor or its nominee(s) to use the patented technology under two invention patent applications relating to graphene deodorizing and sterilizing chips and apply in any products other than shoes, clothes and other wearable devices. The Company will have the right to use such patented technology under the two invention patent applications relating to graphene deodorizing and sterilizing chips in the production of shoes, clothes and other wearable devices.

As the Company will only apply the technology under the above two invention patent applications in the production of shoes, clothes and other wearable devices and the Vendor needs to apply the technology in the production of products other than shoes, clothes and other wearable devices, it is agreed between the Company and the Vendor to enter into a licensing agreement such that the Vendor can still apply the technology under the above two invention patent applications in the production of products other than shoes, clothes and other wearable devices to make full utilisation of the technology.

CONSULTANCY AGREEMENT

The Vendor and the Guarantor undertake to the Company that free training and technical assistance will be provided to the Group and its contracted parties after Completion in order for them to understand and apply the Technology thoroughly. The technical team of the Vendor who possesses extensive knowledge on the application of graphene-related technological know-how will be retained by the Company to provide consultancy services to the technicians of the Group and its contracted parties.

The Vendor will procure five qualified technical consultants to enter into consultancy agreements for a period of three years with the Company upon Completion pursuant to which the technical consultants undertake to the Vendor that they agree to be engaged by the Company as technical consultants at a monthly remuneration of RMB5,000 per person to provide technical assistance in relation to the application of graphene-related technological know-how to the Group and its contracted parties such that the technicians of the Group and its contracted parties would be able to produce graphene-based EVA foam material and graphene deodorizing and sterilizing chips based on the Technology independently.

In the event that any technical consultant resigns or cannot perform his duties under the terms of the consultancy agreement, the Vendor warrants and undertakes to the Company that it will find a replacement with equivalent qualifications and experience as the technical consultant of the Company for the remaining period of the consultancy agreement.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated in the Cayman Islands with limited liability and is principally engaged in the research and development of manufacturing and application technology of graphene material and design of graphene-based products. The Vendor possesses the technology to grow and transfer large area graphene sheets and holds key technology and patents for mass production of graphene. The Vendor acquired the technology related to the US Patent in 2012 and developed the technology related to the PRC Patents and the Exclusive Formula. As at the date of this announcement, the Vendor is wholly owned by the Guarantor.

Except for the transactions as contemplated under the Acquisition Agreement, the Vendor, the Guarantor and their respective associates do not have any current or prior relationship, business arrangements and transactions with the Company and its connected persons.

INFORMATION ON THE TECHNOLOGY

The Technology comprises the US Patent, the PRC Patents and the Exclusive Formula.

The following table summarises the details of each of (i) the US Patent; (ii) the four PRC invention patents; and (iii) the five PRC utility model patents which are related to the manufacturing of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors:

Graphene-based EVA foam material:

Patent Name	Type	Registration number or Application number	Status	Country	Description
A type of foam for soles and shoes and its production method	Invention	CN201510240640.4	Application in progress	PRC	This invention publishes the production method of soles and shoes made of graphene-based EVA foam material. This invention reduces the density and improves the mechanical properties of the material for making EVA foam soles by adding a certain amount of graphene oxide to the EVA foam soles. Besides, the graphene-based EVA foam material is a non-toxic material.

Patent Name	Type	Registration number or Application number	Status	Country	Description
A type of lightweight shoes	Utility Model	CN201520303994.4	Approved	PRC	This utility model patent can be used in shoes, especially casual shoes. This type of shoes include phylon sole with graphene oxide doped foam, the vamp and the middle layer between the phylon sole and the vamp and has the following features: low density, light weight, tear resistant and has memory function.

Graphene deodorizing and sterilizing chips:

Patent Name	Type	Registration number or Application number	Status	Country	Description
A type of photocatalytic nano-composite material and its production method	Invention	CN201510249842.5	Application in progress	PRC	This invention publishes a photocatalytic nano-composite material and its production method. This production method includes the growing of graphene on the porous foamed metal to form a three-dimensional structure and the growing of nano metallic oxide catalyst on graphene. This invention can increase the photocatalytic activity of the photocatalytic material and improves the utilization of solar energy and in turn increase the value in actual applications.

Patent Name	Type	Registration number or Application number	Status	Country	Description
The application of photocatalytic composite material, deodorizing and sterilizing shoe mats and shoes and their production methods	Invention	CN201510253438.5	Application in progress	PRC	This invention publishes the application of photocatalytic composite material in deodorizing and sterilizing shoe mats and shoes and their production methods. The photocatalytic composite material comprises graphene and titanium dioxide which have high sterilization effect. Such photocatalytic composite material can remove over 97% of fungus with low production cost and simple production process, being natural and environmental-friendly and non-toxic to human.
A type of sterilizing shoes	Utility Model	CN201520316130.6	Application in progress	PRC	This patent discloses a type of sterilizing shoes with air sacs and graphene sterilizing devices and connected through pipes. The structure of this device shortens the distance between the light and graphene-metallic oxide catalytic layer so that the light scattering is reduced and the utilization rate of light is increased.

Patent Name	Type	Registration number or Application number	Status	Country	Description
A type of sterilizing shoes	Utility Model	CN201520317995.4	Approved	PRC	This patent discloses a type of sterilizing shoes with air sacs and graphene sterilizing devices and connected through pipes. The air sac can bring the pressured air to the graphene sterilizing chip via the pipe during exercise. The photocatalytic layer performs sterilization to eliminate the toxics and fungus in the air.
A type of sterilizing shoes	Utility Model	CN201520212747.3	Application in progress	PRC	This patent discloses a type of sterilizing shoes with air sacs and graphene sterilizing devices with LED light and connected through pipes. The air sac can bring the pressured air to the graphene sterilizing chip via the pipe during exercise. The photocatalytic layer performs sterilization to eliminate the toxics and fungus in the air. The LED light acts as the catalytic light source to improve the catalytic effect.

Graphene-based pressure-sensitive sensors:

Patent Name	Type	Registration number or Application number	Status	Country	Description
A type of pressure-sensitive sensors and its production method	Invention	CN201510254404.8	Application in progress	PRC	This invention publishes the production method of a type of pressure-sensitive sensors. The pressure-sensitive sensor includes superimposed upper electrode, graphene-doped zinc oxide layer, graphene layer, lower electrode and the base. The pressure-sensitive sensor under this invention has a higher intrinsic piezoelectric constant and can be widely used.
A type of shoes with sensors	Utility Model	CN201520211550.8	Application in progress	PRC	This patent discloses a type of shoes with sensors. There are two inter-connected air sacs in the shoe soles and in one of the air sac is a graphene-based pressure-sensitive sensor which can detect the pressure value. The graphene-based pressure-sensitive sensors can detect pressure experienced by the foot so as to provide real time data regarding the posture and condition of the leg and foot.

General (Note):

Patent Name	Type	Registration number or Application number	Status	Country	Description
Graphene structures with enhanced stability and composite materials formed therefrom	Invention	US8.926.853	Approved	US	Aspects of the invention are directed to a method of forming non-agglomerated graphene structures. Initially, a cluster of particles is received. Subsequently, one or more layers are deposited on the cluster of particles with the one or more layers comprising graphene. The plurality of particles are then etched away without substantially etching the deposited one or more layers. Lastly, the remaining one or more layers are dried. The resultant graphene structures are particularly resistant to the negative effects of aggregation and compaction.

Note: The US Patent is applied on the graphene material to enhance the stability of graphene structure. It can be applied to the manufacturing of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors.

The US Patent was granted by the United States Patent and Trademark Office on 6 January 2015 and subject to the payment of the annuities, will be valid for a period of about 20 years starting from the date of filing on 23 August 2012 and is related to the formation of the graphene structures with enhanced stability and composite material formed therefrom. It was invented by two former employees (the “**Inventors**”) of a wholly-owned subsidiary of the Vendor (the “**Employer**”) in 2012. As the application for patent in the US must be made by the inventor(s), the patent application related to the US Patent was made by the Inventors, and a deed of assignment was entered into between the Inventors as assignors and the Employer as assignee on the same date. The US Patent was subsequently assigned to the Vendor by the Employer on 27 November 2014. As such, no acquisition cost was incurred by the Vendor with respect to the technology related to the US Patent.

Although the Company would focus on the PRC market, the US Patent will offer legal protection on the technology in the US when the Company expands its business and sells its products in the US market in the future. Besides, through obtaining the US Patent, the Company will acquire the technological know-how on how to disperse graphene into the composite materials which is an important technology to enhance the stability of graphene structure and the composite materials formed thereon.

The PRC Patents consist of four invention patent applications (which if granted and subject to the payment of the annuities, will be valid for a period of 20 years starting from the date of filing in May 2015), three utility model patent applications (which if granted and subject to the payment of the annuities, will be valid for a period of 10 years starting from the date of filing in April and May 2015), and two utility model patents which are granted by the State Intellectual Property Office of the PRC in July 2015 and August 2015 (subject to the payment of the annuities, will be valid for a period of 10 years starting from the date of filing in May 2015) in relation to the manufacturing of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors. The Vendor has made applications for the PRC Patents to the State Intellectual Property Office of the PRC.

The key milestones in the development of the technology for which the PRC Patents have been granted/are being applied relating to (i) graphene-based EVA foam material; (ii) graphene deodorizing and sterilizing chips; and (iii) graphene-based pressure-sensitive sensors are set out as follows:

- (i) Graphene-based EVA foam material – one invention patent and one utility model patent and the Exclusive Formula

Date	Key milestones
December 2014	<p>Conducted study on graphene dispersion in EVA in order to prevent the agglomeration of powder-form graphene.</p> <p>Performed comprehensive testing on the performance of graphene-based EVA foam material and discovered that the graphene-based EVA foam material possesses higher foam expansion ratio, lower density and higher elasticity when compared to the traditional EVA foam material. It was also discovered that specific graphene-based EVA composite has memory function.</p> <p>Developed a testing method to measure the effectiveness of dispersion of graphene inside EVA such that the quality of graphene EVA compound additive can be monitored effectively and accurately during mass production.</p>

Date	Key milestones
January 2015	Developed the Exclusive Formula, specifying the ingredients and the corresponding quantities for the production of graphene-based EVA foam material.
February 2015	Performed advanced testing including aging test under different temperatures, hydrolysis test, yellowing resistance test, ultraviolet resistance test and wear and tear resistance test on graphene-based EVA foam material.
April 2015	With the cooperation of the Company, sample shoes made of graphene-based EVA foam material were manufactured and sent to an independent technical organisation for standard check relating to mass production and the test result was positive.
May 2015	Fungus resisting shoe mats were sent to Guangdong Detection Center of Microbiology to assess the antimicrobial rate. The test result shows that the antimicrobial rate is 80%. Submitted one invention patent application (CN201510240640.4) and one utility model patent application (CN201520303994.4).
July 2015	One utility model patent (CN201520303994.4) was granted.
(ii) Graphene deodorizing and sterilizing chips – two invention patents and three utility model patents	

Date	Key milestones
December 2014	Applied the technology of graphene/TiO ₂ photocatalytic air sterilizing prototype to the sample shoes. Three pairs of sample shoes were sent to Guangdong Detection Center of Microbiology for sterilization efficiency test and the test results show that bacteria killing rate of anti-fungus shoes made of graphene deodorizing and sterilizing chips is over 92%.

Date	Key milestones
April 2015	Developed a miniaturized graphene/TiO ₂ photocatalytic sterilizing module which was mainly used in shoe soles with air sacs. Submitted one utility model patent application (CN201520212747.3).
May 2015	Developed a graphene/TiO ₂ photocatalytic sterilizing module without LED light and amended the design of the sample shoes so that sunlight can be used for sterilization. Submitted two invention patent applications (CN201510249842.5/CN201510253438.5) and two utility model patent applications (CN201520316130.6/CN201520317995.4).
August 2015	One utility model patent (CN201520317995.4) was granted.

(iii) Graphene-based pressure-sensitive sensors – one invention patent and one utility model patent

Date	Key milestones
December 2014	Performed feasibility study of high-precision graphene piezoelectric composite pressure-sensitive sensors.
March 2015	Produced an initial prototype device of graphene-based pressure-sensitive sensors and started testing the basic parameters.
April 2015	Submitted one utility model patent application (CN201520211550.8).
May 2015	Optimized the production process and enhanced its practicability such as sensitivity and effective range. Submitted one invention patent application (CN201510254404.8).

The Exclusive Formula owned by the Vendor relates to certain technological know-how on the application of graphene compound additive to the production of graphene-based EVA foam material.

Pursuant to the Patent Law in the PRC, all information relating to an invention patent application would be published by the State Intellectual Property Office of the PRC publicly 18 months after the date of filing of such patent application regardless of such application is successful or not. If an invention patent application is filed for the Exclusive Formula, the technological know-how of the Exclusive Formula will be available in the public domain after 18 months. The Company therefore considers that it is in its interest not to file a patent application for the Exclusive Formula to avoid the public disclosure of the Exclusive Formula.

As at the date of this announcement, the PRC Patents with application numbers CN201510240640.4 and CN201510253438.5 have passed preliminary assessment. The PRC Patents with application numbers CN201510249842.5 and CN201510254404.8 required updated information to be submitted. The remaining three PRC Patents with application numbers, CN201520316130.6, CN201520212747.3 and CN201520211550.8 are pending approval despite having no material outstanding matters. Applications in relation to invention patents may take up to 2.5 to 3.5 years from the date of filing of application to the date of grant of patent, while applications in relation to utility model patents may take up to 6 months to 1 year from the date of filing of application to the date of grant of patent.

Graphene is a thin layer of pure carbon atoms that are bonded together in a hexagonal honeycomb lattice. In more complex terms, it is an allotrope of carbon in the form of a two-dimensional, atomic-scale, hexagonal lattice in which one atom forms each vertex. Graphene is the world's thinnest and strongest nanomaterial due to its special structure and morphology. The major properties of graphene are extreme mechanical strength, good elasticity, high specific surface area and high electronic and thermal conductivities. Graphene could be revolutionary for a wide variety of fields including electronics, aerospace, optics, lightweight/strong composite material, photovoltaics and energy storage, biomedicine and daily life usage. Industry researchers anticipate graphene will create a new era for new material which may introduce substantive changes to the global manufacturing industry in the 21st century.

The Exclusive Formula was invented by the Vendor based on the physical properties of graphene after conducting researches and repeated experiments. The key members of the technical team of the Vendor specialize in this area consist of experienced and professional engineers with relevant expertise and academic background in radioelectronics, material science and engineering, material physics and chemistry, physical electronics and optoelectronic technology. The Exclusive Formula could be applied in the production process of graphene-based EVA foam material. Due to the properties of graphene, graphene-based EVA foam material has better features in elasticity, weight, foam expansion, wear-resistance, smell and antibacterial effect when compared to traditional EVA foam material. These features suggest that graphene-based EVA foam material could replace traditional EVA foam material in many applications. In particular, lesser amount of EVA is required in the production of graphene-based EVA foam material when compared to the traditional EVA foam material given its higher foam expansion property which results in lower material cost.

Graphene-based EVA foam material can be used to produce various products such as (i) shoes including sneakers, hiking shoes, sports shoes, slippers, sandals and the sole and insole of some boots and leather shoes; (ii) paddings of travel luggage and backpack; (iii) toys including play mat, bassinet cushion and puzzles; and (iv) sports gear including exercise mat, yoga mat, elbow and kneepad, balls and other sports equipment accessories.

Given the superior properties of graphene-based EVA foam material as described above, it is expected that this new foam material will become a dominant foam material in the near future and will lead to a breakthrough in the material technology for footwear and slippers, luggage, toys, sports gear and construction.

Apart from the manufacturing of graphene-based EVA foam material, the Technology can also be applied in the manufacturing of graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors. According to two reports from Guangdong Detection Center of Microbiology (designated as a recommended testing institution for the detection of anti-microbial properties of anti-microbial labeling products and knitwear by China Industry Association for Anti-Microbial Materials and Products and China Knitting Industry Association) in analysing the antibacterial and sterilization efficiency of graphene, samples of fungus resisting shoes mat and anti-fungus shoes were used in the tests respectively. The test results reveal that the antimicrobial rate of fungus resisting shoes mat made of graphene-based EVA foam material is 80% while the bacteria killing rate of anti-fungus shoes made of graphene deodorizing and sterilizing chips is over 92%. The test results demonstrate that graphene-based material has high sterilizing efficiency.

As the Technology has not yet been put to commercial use, the historical net profits attributable to the Technology for the last two financial years are not available.

BUSINESS PLAN

As mentioned above, the Group has been producing EVA foam material for the manufacturing of slippers for original equipment manufacturer (“OEM”) customers and its own brands of Boree and Baofeng and shall continue to expand the existing business of design and manufacturing of slippers. In view of the better features in elasticity, weight, wear-resistance, smell and antibacterial effect of the graphene-based EVA foam material, the Company plans to manufacture the graphene-based EVA foam material for its own use to improve its product quality. It also intends to expand its business scope to engage in the supply of graphene-based EVA foam material and allocate more resources to develop the upstream market. In addition, as a lesser amount of EVA is required in the production process of graphene-based EVA foam material when compared to the traditional EVA foam material given its higher foam expansion property, the reduced material cost would result in cost saving and competitive advantage for the Group, enhancing its leading role in the slipper industry. Given the superior properties of graphene-based EVA foam material and lower material cost, the Directors believe that the Technology would have a positive effect on both the growth prospects and profit margin of the Group’s business.

Furthermore, the Company plans to expand its production capacity gradually and develop the manufacturing of graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors businesses with the benefit of the Technology, which may be installed into sports shoes, casual shoes and slippers. The major target customers are the manufacturers of branded shoes, including but not limited to its own branded shoes (Baofeng and Boree) and current OEM customers of the Group. The Company plans to start marketing activities in the third quarter of 2016 which involves preparing marketing and promotional material and sending samples to the target customers and then commence selling in a selected city in the PRC. After obtaining confirmed sales orders with its customers, mass production will start during that period. In the fourth quarter of 2016, selling in other cities in the PRC and launching marketing campaign with more resources will commence.

The wearable devices will work together with a smart phone application. The major target customers are the manufacturers of the branded shoes. The Company plans to start marketing research on the wearable devices in the second quarter of 2016 and develop the smart phone application. By 2017, the Company will launch trial marketing tests including distribution of samples to the customers and organising small scale marketing promotion activities. Around the second and third quarter of 2017, the Company will finalise the sales plan upon receipt of sale orders from customers and will then start mass production. In the fourth quarter of 2017, selling in the PRC and launching marketing campaign with more resources will commence.

It is the present intention of the Company to focus on the business of graphene-based EVA foam material which is expected to become a major business segment of the Group. According to the business plan of the Group, the businesses of the graphene deodorizing and sterilizing chips and the graphene-based pressure-sensitive sensors are in a preliminary stage and will only be commenced in 2016 and 2017 respectively, and they are not expected to become major business segments of the Group.

Based on the profit forecast adopted in the valuation report prepared by Ascent Partners, the revenue of the business of graphene-based EVA foam material for the year ending 31 December 2016 is expected to reach RMB460.8 million, which represents 234% of the total audited revenue of the Group for the year ended 31 December 2014 (as disclosed in the annual report of the Company for the year ended 31 December 2014). The growth of the business of the graphene-based EVA foam material is expected to be more substantial when compared to the growth of the existing business of the Group, despite that the Technology will improve the competitiveness of the existing business of the design and manufacturing of slippers. It is expected that the business of the graphene-based EVA foam material will become another major business segment of the Group.

The Company has no present intention, nor there be any arrangement, agreement, understanding, negotiation (concluded or otherwise) to dispose of or terminate or scale-down the Company's existing business.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; (ii) upon Completion and immediately after the allotment and issuance of the Conversion Shares upon full conversion of the maximum amount of the Convertible Bonds at the initial conversion price of HK\$0.84 per Conversion Share (assuming that there is no other change in the issued share capital of the Company since the date of this announcement); and (iii) upon Completion and immediately after the allotment and issuance of the Conversion Shares upon full conversion of the maximum amount of the Convertible Bonds at the initial conversion price of HK\$0.84 per Conversion Share (assuming all existing warrants and outstanding share options of the Company are exercised in full):

	(i) As at the date of this announcement		(ii) Upon Completion and immediately after the allotment and issuance of the Conversion Shares upon full conversion of the maximum amount of the Convertible Bonds		(iii) Upon Completion and immediately after the allotment and issuance of the Conversion Shares upon full conversion of the maximum amount of the Convertible Bonds (assuming all existing warrants and outstanding share options of the Company are exercised in full)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Best Mark International Limited (Note 1)	473,876,157	44.39	473,876,157	36.80	473,876,157	32.83
Capital Vision International Limited (Note 1)	45,159,610	4.23	45,159,610	3.51	45,159,610	3.13
	519,035,767	48.62	519,035,767	40.31	519,035,767	35.96
Mr. Zheng Jingdong (Note 2)	-	-	-	-	2,750,000	0.19
The Vendor or its nominee(s)	-	-	220,000,000	17.09	220,000,000	15.24
Public Shareholders	548,543,841	51.38	548,543,841	42.60	701,735,411	48.61
Total	1,067,579,608	100.00	1,287,579,608	100.00	1,443,521,178	100.00

Notes:

- Best Mark International Limited and Capital Vision International Limited are wholly owned and controlled by Mr. Sze Ching Bor, a non-executive Director. Best Mark International Limited has granted an option to Total Shine Investments Limited, a company wholly owned and controlled by Ms. Lin Weihuan, to acquire 233,155,792 Shares in aggregate, representing 21.84% of the issued share capital of the Company as at the date of this announcement. Accordingly, Total Shine Investments Limited and Ms. Lin Weihuan are deemed to be interested in 233,155,792 Shares, currently held by Best Mark International Limited, which may be transferred to Total Shine Investments Limited upon exercise of the said option. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Ms. Lin Weihuan and Total Shine Investments Limited are third parties independent of the Vendor, the Guarantor and their respective connected persons.*
- Mr. Zheng Jingdong is the chairman of the Company and an executive Director.*

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no present intention, nor is there any arrangement, agreement, understanding, negotiation (concluded or otherwise) on any change in the Company's shareholding structure.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacture of slippers for OEM customers and design and manufacture of slippers under its own brands of "Boree" and "Baofeng".

As disclosed in the annual report of the Company for the year ended 31 December 2014, the Directors consider that it would be beneficial for the Group to deploy more resources into the research and development of new material for the manufacture of footwear with improved properties of wear-resistance, portability, air permeability and antibacterial property. The Group would conduct further research in the development and application of new technologies, such as hi-tech disinfection and deodorization chips for shoes which can be widely used in sneakers and specialty footwear given its proven effect on hygiene through effectively eliminating fungus within shoes and prevention and treatment of illnesses such as beriberi and athlete's foot. Moreover, the Group would develop wearable devices business through acquisition of proprietary technology.

The Group has been producing EVA foam material for the manufacturing of slippers for OEM customers and its own brands of "Boree" and "Baofeng". EVA foam material can be widely applied in various products apart from slippers, such as shoes, luggage, sports gear, toy and construction. Frost and Sullivan¹, which prepared an industry research report for the Company in its initial public offering in 2011, was engaged by the Company to prepare a market research on China's EVA market. According to the research report, among the major applications, shoes and luggage together constitute nearly 70% of the total EVA foam material consumption volume in the PRC in 2014. EVA foam material consumption volume in the PRC has grown from 8.0 million cubic meters in 2010 to 10.5 million cubic meters in 2014, representing a compound annual growth rate of approximately 7.0%, due to increase in demand from downstream applications and encouragement from the PRC government policy to boost domestic consumption. With further economic development and industrial upgrade of downstream applications of the EVA foam material, EVA foam material downstream market in the PRC especially footwear and slippers and luggage industry is expected to grow continuously in the coming years.

¹ *Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in the PRC includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecommunication.*

The Group is one of the largest slipper manufacturers in the PRC with strong production capability. It takes a leading role in the development of the industry standard for slipper manufacturers in the PRC. Besides, the Company possesses extensive experience in footwear and slippers manufacturing industry and is familiar with the downstream manufacturers in footwear and slippers industry and luggage industry. After preliminary assessment on the possibility of applying graphene to EVA foam material, the Board has conducted due diligence work on the Technology for more than 10 months and carried out extensive feasibility studies on the manufacturing and marketing of graphene-based EVA foam material. The Company is confident about the introduction of graphene-based EVA foam material to the market given that graphene-based EVA foam material possesses the distinctive features as mentioned in the paragraph headed “Information on the Technology” above and expects graphene-based EVA foam material would gradually replace the traditional EVA foam material. The Board is of the view that the combination of high-tech material with conventional industry would enhance the competitiveness of the Company.

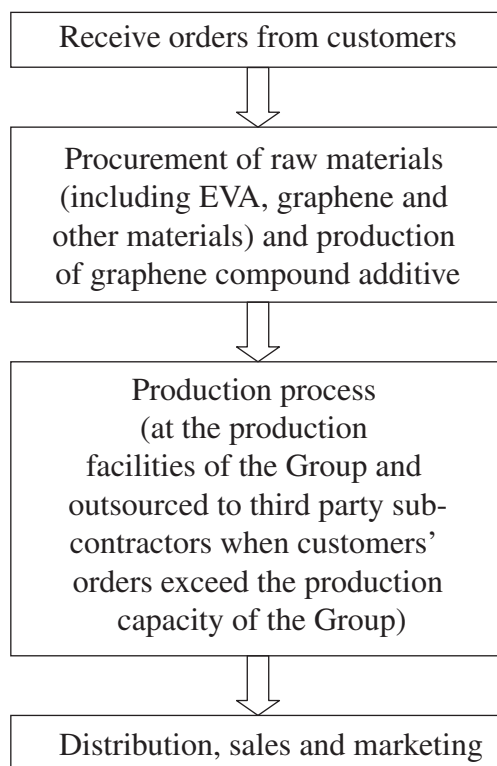
Through the Acquisition, the Group would possess the expertise to manufacture low-cost, superior graphene-based EVA foam material and lead the second generation of EVA foam material technology. In addition to manufacturing graphene-based EVA foam material for its own use, the Group intends to further expand its business to supply graphene-based EVA foam material and allocate more resources to develop the upstream market in view of the growth potential of graphene-based EVA foam material as described above. The Directors believe that the Company has the competitive advantage by applying the Exclusive Formula in the production process of graphene-based EVA foam material and could save production costs with the technological know-how on the application of graphene compound additive.

The Directors consider that the Acquisition is a good investment opportunity to allow the Group to apply new technology for footwear and slippers and expect that the Acquisition will present the Group with favorable long term prospects. The Company believes that the Acquisition will improve its competitiveness and develop a promising business model which could improve its performance and enhance the interests of the Shareholders. Based on the above, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. Save for the Acquisition, the Company has no present intention, nor is there any arrangement, agreement, understanding, negotiation (concluded or otherwise) to inject or acquire any new business.

Business model

The business model for the Group's OEM business and own branded product business remains unchanged after Completion.

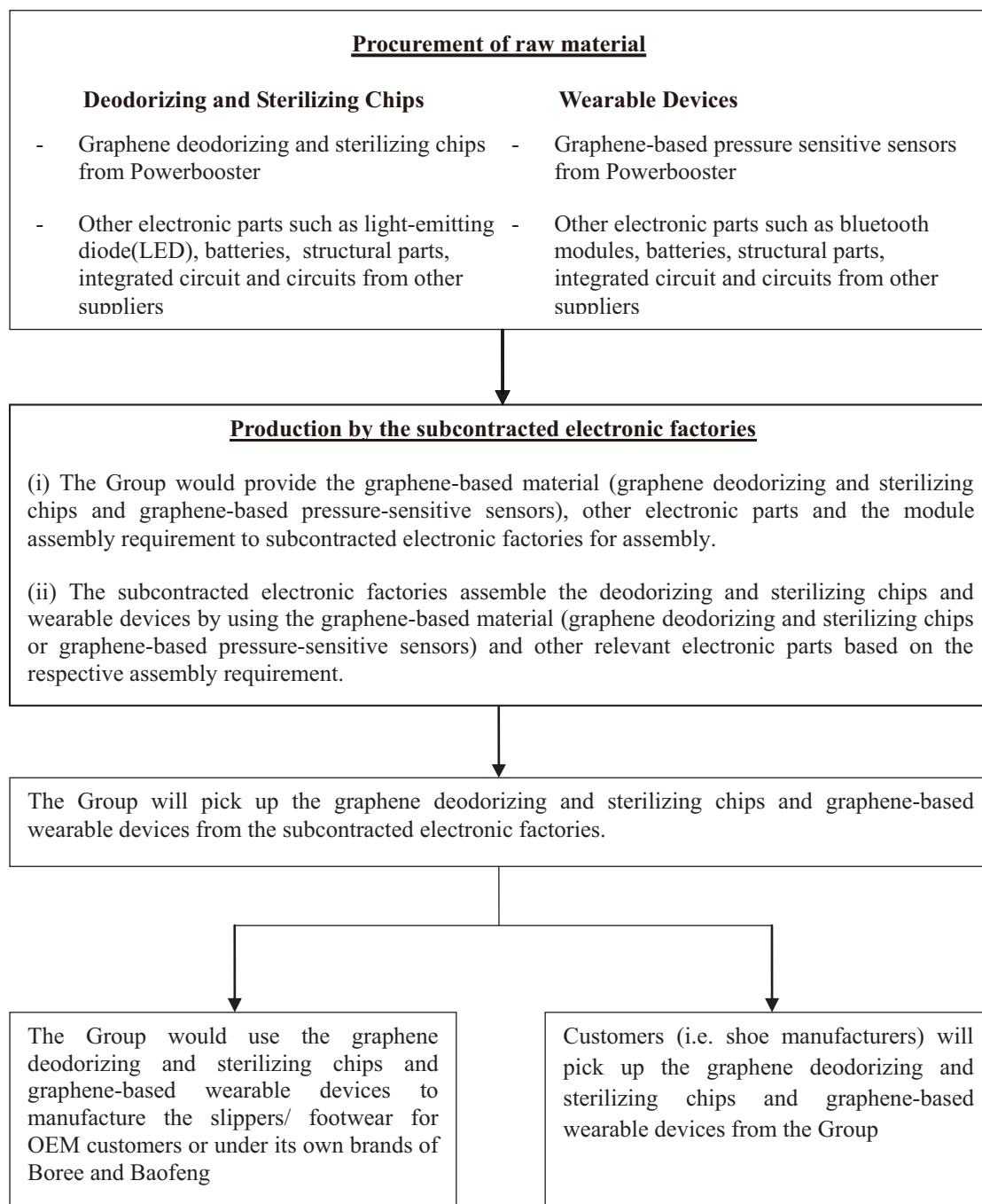
The business model of the Group in respect of the production of graphene-based EVA foam material is illustrated below:



The Company receives orders from EVA foam material customers and is responsible for procuring the necessary raw materials including EVA, graphene and other materials and produces the graphene compound additive for use in the production of EVA foam material. Under the Supply Agreement, the Company will be able to secure the supply of powder-form graphene from Powerbooster. The Company will utilise the powder-form graphene to be supplied by Powerbooster and apply the Exclusive Formula together with the Technology Know-how in the production process of graphene-based EVA foam material. The Company will commence production by utilising the production capacity of its production facilities. The Exclusive Formula, which would be applied in producing graphene compound additive, will be used by the Group exclusively. In the event that the production capacity of the Company is fully utilised, the Company will subcontract the production of the graphene-based EVA foam material to third party sub-contractors and provide them with graphene compound additive and give instruction on the specification of production to third party sub-contractors, who will not have access to the Exclusive Formula. The Company will coordinate the delivery of graphene-based EVA foam material with the sub-contractors and/or its customers.

The graphene-based EVA foam material produced by the Company will be used (i) in the products of its OEM customers; (ii) in its own branded products; and (iii) by customers who use EVA foam material in its products such as shoes or slippers, luggages, toys and sports gear manufacturers. The target customers of the Group in 2016 are mainly shoes, slippers and luggage manufacturers. The Company plans to commence businesses with toys and sports gear manufacturers starting from 2017.

The business models of the Group in respect of the production of graphene deodorizing and sterilizing chips and the wearable devices are illustrated below:



The Company will procure graphene-based material (i.e. graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors) from Powerbooster pursuant to the Supply Agreement and other electronic parts such as LED, batteries and circuits from other suppliers. Powerbooster will produce the graphene-based material based on the technological know-how provided by the Company. The Company will then provide all the necessary material including the graphene-based material and other electronic parts to subcontracted electronic factories for assembly. The Company will also provide instruction and specifications of the products to the electronic factories. After assembling, the Company will pick up the graphene deodorizing and sterilizing chips and graphene-based wearable devices from the subcontracted electronic factories. The Group will use these products to manufacture the slippers and footwear for OEM customers or under its own brands of Boree and Baofeng. Besides, the Group will sell these graphene deodorizing and sterilizing chips and graphene-based wearable devices to other shoe manufacturers.

Capital requirement

The Company plans to expand its production capacity by making further investment in its production facilities for graphene-based EVA foam material. Based on the Company's discussion with the experts of the Vendor, the Company plans to acquire additional machineries, some of which are the same type of machineries used in the existing production process of the Company and some are specifically required for the production of graphene compound additive, for the expansion of its production facilities at a total investment costs of approximately RMB11,080,000. Details of the machineries to be acquired by the Group are set out as follows:

Type of machineries	Unit cost (RMB)	Quantities	Total cost (RMB)
Machinery for expansion of existing operation:			
Dispersion Mixer	200,000	6	1,200,000
Mixing Mill Machine	185,000	6	1,110,000
Sheeting Mill Machine	110,000	3	330,000
Foaming Hydraulic Machine	650,000	11	7,150,000
Machinery for production of graphene compound additive:			
Ultrasonic Cleaning Machine	32,000	2	64,000
High Temperature Furnace	20,000	10	200,000
PPC Granulation Machine	85,500	12	1,026,000
			11,080,000

The Directors expect that apart from the above RMB11,080,000 capital expenditure required for the purchase of new machineries and the cash portion of the Consideration, the Group has no significant capital expenditure and commitments which would require substantial cash outflow in the next twelve months. The Company believes that the cash generated from its operations is sufficient to support the general working capital requirement of the Group.

For graphene deodorizing and sterilizing chips and graphene-based wearable devices, all production processes are intended to be subcontracted to electronic factories and thus there is no capital requirement and production facilities requirement for the production of graphene deodorizing and sterilizing chips and graphene-based wearable devices.

COMPLIANCE WITH THE LISTING RULES IN RESPECT OF THE VALUATION OF THE TECHNOLOGY KNOW-HOW AND THE EXCLUSIVE FORMULA

The valuation of the Technology Know-how and the Exclusive Formula is an appraisal of their fair value and was prepared by Ascent Partners based on income approach which is considered as an appropriate and reasonable valuation method. In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership which is developed through the application of discount cash flow method to derive the values of the expected future income generated by the asset into a present value. The fair value of the Technology Know-how and the Exclusive Formula has been developed through the application of the market value weighted average cost of capital (WACC) to discount the future free cash flows to the firm (FCFFs) which are generated by the Technology Know-how and the Exclusive Formula.

The valuation is prepared in accordance with International Valuation Standards issued by International Valuation Standards Council and Hong Kong Financial Reporting Standard. It constitutes a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions used in the valuation of the Technology Know-how and the Exclusive Formula include the following (as extracted from the valuation report of the Technology Know-how and the Exclusive Formula dated 14 October 2015 prepared by Ascent Partners):

General assumptions

1. There will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Company;
2. No financial data have been investigated to determine the earning capacity of the operation in which the assets are used, and it is assumed that the prospective earnings would provide a reasonable return on the fair market value of the assets;
3. Ascent Partners have visited the premises where the Company's business operates. They have relied on the assistance of and information provided by the Company and the existence of the assets concerned; and

4. As part of the analysis, Ascent Partners have reviewed the information made available to them concerning plant and equipment, such as their values. They have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at their opinion of value.

Other assumptions and notes

1. The average inflation rate of 2.76% in the PRC for the years 2011 to 2015 (forecasted) disclosed in “World Economic Outlook April 2015” published by the International Monetary Fund is employed as the long-term growth rate after 2019;
2. The Technology Know-how and the Exclusive Formula will be transferred to the Company;
3. The corporate tax rate is assumed to be 25% which is the corporate tax rate of the PRC;
4. The Technology Know-how and the Exclusive Formula are assumed to generate future economic benefits for up to 10 years, which is in line with the validity period of utility model patent granted in the PRC;
5. The expected annual quantity of sales of graphene-based EVA foam material is 240,000 cubic meters in 2016, which is supported by the memoranda of understanding signed by the Company with potential customers for the year 2016. The expected annual sales volume is 500,000 cubic meters in 2017, 700,000 cubic meters in 2018, 1,000,000 cubic meters each year in 2019 to 2024, and 500,000 cubic meters for the first six months in 2025.

Based on the information relating to (i) the forecasted market demand for EVA foam material, and (ii) the expected demand for graphene-based EVA foam material which is calculated based on the replacement rate of traditional EVA foam material by graphene-based EVA foam material as stated in the market research report of China’s EVA Market Study prepared by Frost & Sullivan, the expected growth rates of graphene-based EVA foam material for the three years ending 31 December 2017, 2018 and 2019 are 147%, 80% and 57% respectively.

The forecasted market demand for graphene-based EVA foam material was based on historical consumption volume of EVA foam material from 2010 to 2014, estimated market demand for EVA foam material from 2015 to 2019 with reference to annual growth rate and the replacement rate derived from a market research report prepared by Frost & Sullivan. Frost & Sullivan has undertaken a primary research in the footwear, luggage and slippers industries which involves discussing the status of the industry with leading industry participants and industry experts. The top 10 industry players as well as 5-7 medium-sized industry players of these three respective industries have been interviewed or surveyed in order to gather information relating to the market demand for EVA foam material, their willingness to replace traditional EVA foam material by graphene-based EVA foam material and the estimated market share of the interviewees in these three industries in each of the five years ending 31 December 2019. In addition, secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database has been performed. Frost & Sullivan has used 2014 data as baseline for projection and estimation of the figures for year 2015 to 2019.

The Company plans to form a sales and marketing team for business expansion and will put more effort to promote the new products made by graphene-based materials in the coming years. Having made reference to the expected growth rates of graphene-based EVA foam material computed based on the information from the abovementioned market research report, the Company forecasts the annual quantity of sales of graphene-based EVA foam material to be 500,000 cubic meters in 2017, 700,000 cubic meters in 2018, 1,000,000 cubic meters each year in 2019 to 2024, and 500,000 cubic meters for the first six months in 2025. These annual sales quantity represent a year-on-year growth of 108%, 40% and 43% in 2017, 2018 and 2019 respectively which are below the expected growth rates as computed from the research report. The expected annual sales quantity of graphene-based EVA foam material is assumed to be stable after 2019 to provide a more prudent result of the valuation;

6. The annual in-house production output from 2016 is based on the capacity of the production facilities of the Group calculated based on a daily production capacity of 700 cubic meters and 320 working days in a year, which is 224,000 cubic meters per year. The daily production capacity of the production facilities is estimated based on the specification of the machinery and the experience of the Company;

7. The Company will be able to find sub-contractors with sufficient production capacity to produce the graphene-based EVA foam material when orders exceed its production capacity. Based on a letter issued by Quanzhou Footwear Association (泉州市鞋業商會), the daily total production volume of EVA foam material in Quanzhou is over 4,500 tonnes in 2015 from more than 130 EVA foam material manufacturers, who are capable of acting as sub-contractors. Assuming there are 320 working days in a year, the annual total production volume of EVA foam material in Quanzhou is over 1,440,000 tonnes, which greatly exceeds the estimated sub-contracting capacity of 776,000 cubic meters (i.e. 31,040 tonnes) per year required by the Company from 2019 onwards. Based on the estimated production volume of EVA foam material in Quanzhou, the Company expects that it is able to find sub-contractors for the production of graphene-based EVA foam material given there are sufficient manufacturers in the market;
8. It is assumed that the selling price of the graphene-based EVA foam material is RMB1,920 per cubic meter in 2016 and will decrease by 4.0% per year until 2019, and the unit price will remain constant from 2019. The assumption of unit price of RMB1,920 per cubic meter is based on a 4% discount on the lower end of the market price of EVA foam material of approximately RMB2,000 (the current market price of EVA foam material is in the range of RMB2,051 to RMB2,735). The Company decides to set the selling price slightly cheaper than the lowest range in order to attract customers. The decrease of 4.0% per year is based on the 4.0% bulk discount which will be offered to clients due to large quantity purchase each year until 2019 according to the business plan of the Company. The selling price will remain constant from 2019 as the expected annual quantity of sales will remain constant from 2019;
9. The monthly salary of employees will increase 10.0% per year for 10 years as staff incentive based on the management's expectation and with reference to the market increase in average salary in Fujian province in 2013 and 2014;
10. The commission and bonus for the employees is estimated based on the business plan of the Company which has an increasing budgeted amount allocated for salary, commission and bonus for each year. The amount of commission and bonus for each year is determined by deducting the salary from such budgeted amount for the respective year. The commission and bonus for the employees are assumed to remain constant from 2019, which is in line with the zero growth of sales revenue from 2019;
11. The existing EVA foam material production equipment of the Company, with fair value of RMB1,585,212 and remaining useful life of 10 years (confirmed by the management) will be utilised for the production of graphene-based EVA foam material;
12. The Company will further invest RMB11,080,000 for purchasing new production equipment and machineries. Based on the existing production equipment of the Group and quotations for the equipment and machineries required for the production of graphene compound additive as advised by the Vendor, the total investment costs for the equipment and machineries to be acquired by the Company is estimated to be RMB11,080,000;

13. Taking into account that the equipment and machineries used for mixing graphene with other materials are standardized and based on the knowledge of the Company, these equipment and machineries can be delivered by the suppliers and installed in around 2 weeks. Therefore, the lead time between the initiation and execution of the production process is short and the Company would be able to commence the production immediately after Completion;
14. The cost of graphene for the production of EVA foam material is assumed to be based on the pre-agreed prices under the Supply Agreement;
15. With reference to the information provided by the Vendor and quotations from suppliers, the cost of other materials required for the production of 1 cubic meter of EVA foam material produced is assumed to be RMB316.8, which will be decreased by 1.0% per year until 2019. The decrease of 1.0% per year is based on the 1.0% bulk discount from the suppliers due to large quantity purchased; and
16. The weighted average cost of capital of the Company of 16.40% was adopted as the discount rate, assuming a target debt-to-equity ratio of 34.00%, a cost of debt of 6.78% and a cost of equity of 20.29%.

The Company engaged the auditor of the Company, Pan-China, to report on the calculations of the discounted future estimated cash flows, on which the valuation report prepared by Ascent Partners dated 14 October 2015 in respect of the fair value of the Technology Know-how and Exclusive Formula as at 30 June 2015 is based, in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”.

The financial adviser of the Company, Optima Capital Limited, has considered the forecasts included in the valuation report and the abovementioned report from Pan-China addressed solely to and for the sole benefit of the Directors, and attended discussions involving the management of the Company and Ascent Partners. Optima Capital Limited is satisfied that the forecasts included in the valuation report have been made by the Directors after due and careful enquiry.

The abovementioned report from Pan-China and a letter from Optima Capital Limited regarding the forecasts in the valuation report are set out in the Appendices to this announcement in compliance with Rule 14.62 of the Listing Rules. The Company has submitted the report from Pan-China and the letter from Optima Capital Limited to the Stock Exchange in compliance with Rules 14.62(2) and (3) of the Listing Rules.

To the best of the Directors’ knowledge, information and belief, neither Pan-China nor Optima Capital Limited has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Pan-China and Optima Capital Limited has given their respective written consents to the publication of this announcement with the inclusion of their respective report and letter and all references to their respective names in the form and context in which they are included.

LISTING RULES IMPLICATIONS ON THE ACQUISITION

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement and Shareholders' approval requirements. The EGM will be convened and held for the purpose of considering and, if thought fit, approving the resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and is required to abstain from voting on the relevant resolution(s) to be proposed at the EGM.

A circular containing, among other things, (i) details of the Acquisition Agreement; (ii) financial information of the Group; (iii) the valuation report of the Technology Know-how and the Exclusive Formula prepared by an independent professional valuer; (iv) the unaudited pro forma financial information of the Group assuming Completion takes place; (v) other information as required under the Listing Rules; and (vi) the notice convening the EGM is expected to be despatched to the Shareholders on or before 16 November 2015 as additional time is required for the Company to prepare the relevant information for inclusion in the circular.

As the Acquisition Agreement is subject to a number of conditions precedent, the Acquisition Agreement may or may not become unconditional or be completed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the Technology by the Company from the Vendor pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 14 October 2015 entered into among the Company, the Vendor and the Guarantor in relation to the Acquisition
“Ascent Partners”	Ascent Partners Valuation Service Limited, an independent professional valuer
“Board”	the board of Directors

“Business Day”	a day (other than Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“close associate(s)”	has the meaning ascribed to it in the Listing Rules
“Company”	Baofeng Modern International Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange (stock code: 1121)
“Completion”	completion of the sale and purchase of the Technology in accordance with the terms and conditions of the Acquisition Agreement
“Completion Date”	the date of Completion
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the consideration payable by the Company for the Technology under the Acquisition Agreement in the amount of up to RMB1,800 million
“Conversion Date”	the Business Day immediately following the date of the surrender of the relevant Convertible Bond certificate and delivery of conversion notice therefor and, if applicable, any payment to be made or indemnity given under the terms and conditions in connection with the exercise of the conversion right provided that if such rights are exercised during a period when the register of Shareholders is closed, the conversion date shall be the next following Business Day on which the register of Shareholders is open
“Conversion Shares”	initially, up to 220,000,000 new Shares (subject to adjustment as provided under the Instrument), which may be allotted and issued upon exercise by the Convertible Bondholder(s) of the conversion rights attached to the Convertible Bonds

“Convertible Bond(s)”	the zero coupon unsecured convertible bonds to be issued by the Company in the maximum principal amount of HK\$184,800,000 due on the third (3rd) anniversary of its date of issue to satisfy part of the Consideration
“Convertible Bondholder(s)”	a holder (or holders) in whose name(s) the Convertible Bond(s) is/are registered in the register of convertible bondholders
“Director(s)”	director(s) of the Company
“EBITDA”	earnings before interest, taxes, depreciation and amortisation
“EBITDA Sharing Mechanism”	has the meaning ascribed to it in the paragraph headed “Consideration” under the section headed “The Acquisition Agreement” of this announcement
“EGM”	the extraordinary general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
“EVA”	ethylene-vinyl acetate, also known as poly (ethylene-vinyl acetate) (PEVA), is the copolymer of ethylene and vinyl acetate. It is a polymer that approaches elastomeric material in softness and flexibility, yet can be processed like other thermoplastics. The material has good clarity and gloss, low-temperature toughness, stress-crack resistance, hot-melt adhesive waterproof properties, and resistance to ultraviolet radiation
“Exclusive Formula”	the exclusive formula applied in producing graphene compound additive which is then used in the production of graphene-based EVA foam material
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Zhuang Chaohui, the sole shareholder and the sole director of the Vendor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Instrument”	the instrument to be executed by the Company by way of a deed poll pursuant to the Acquisition Agreement to create and issue the Convertible Bonds, which sets out the rights and interests of the Convertible Bondholder(s)
“Interim Financial Period”	the 6-month period ended 30 June or 31 December of each year
“Last Trading Day”	14 October 2015, being the date of the Acquisition Agreement and the last trading day of the Shares immediately prior to the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Pan-China”	Pan-China (H.K.) CPA Limited, the auditor of the Company
“Powerbooster”	Powerbooster (Fujian) Material Technology Company Limited, a company incorporated in the PRC with limited liability
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Patents”	four invention patent applications, three utility model patent applications and two utility model patents in the PRC in relation to the manufacturing of the graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors
“Restricted Businesses”	has the meaning ascribed to it under the section headed “Deed of non-competition” of this announcement
“Second Instalment Conditions”	has the meaning ascribed to it in the paragraph headed “Consideration” under the section headed “The Acquisition Agreement” of this announcement
“Share(s)”	ordinary share(s) of US\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Share(s)

“SPV”	one or more than one special purpose vehicle(s) to be established by the Group for the sales of graphene-based EVA foam material, graphene deodorizing and graphene-based sterilizing chips and wearable devices manufactured using the Technology and/or any other companies (other than companies of the Group) authorised to use the Technology
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	the supply agreement to be entered into between the Company and Powerbooster in relation to the supply of the graphene-based material
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Technology”	collectively, the US Patent, the PRC Patents and the Exclusive Formula
“Technology Know-how”	the technology know-how in respect of graphene compound additive which is then used in the production of graphene-based EVA foam material
“Third Instalment Conditions”	has the meaning ascribed to it in the paragraph headed “Consideration” under the section headed “The Acquisition Agreement” of this announcement
“US”	the United States of America
“US Patent”	the patent of the graphene structures with enhanced stability and composite material formed therefrom granted by the United States Patent and Trademark Office
“Vendor”	Bluestone Technologies (Cayman) Limited, a company incorporated in the Cayman Islands with limited liability
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the US
“%”	per cent.

For ease of reference and unless otherwise specified in this announcement, sums in HK\$ and RMB in this announcement have been translated at the rate RMB1.0 = HK\$1.22. This does not mean that HK\$ could be converted into RMB, or vice versa, based on such exchange rate.

By Order of the Board
Baofeng Modern International Holdings Company Limited
Zheng Jingdong
Chairman

Hong Kong, 14 October 2015

As at the date of this announcement, the executive Directors are Mr. Zheng Jingdong and Mr. Leung Tsz Chung; the non-executive Directors are Mr. Sze Ching Bor and Mr. Chan Chak Chak Daniel; and the independent non-executive Directors are Ms. An Na, Mr. Chen Shaohua and Professor Zhao Jinbao.

APPENDIX I – REPORT FROM PAN-CHINA

The following is the text of a report from Pan-China (H.K.) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this announcement.



PAN-CHINA (H.K.) CPA LIMITED Certified Public Accountants

天健(香港)會計師事務所有限公司

14 October 2015

Board of Directors
Baofeng Modern International Holdings Company Limited
Room 504, 5/F., OfficePlus @Sheung Wan
93-103 Wing Lok Street
Sheung Wan
Hong Kong

Dear Sirs,

ACCOUNTANTS’ REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TARGET ASSETS

We have examined the calculations of the discounted future estimated cash flows (the “**Underlying Forecast**”) underlying the valuation report dated 14 October 2015 prepared by Ascent Partners Valuation Service Limited (the “**Valuer**”) in respect of the fair value of the technology know-how and exclusive formula relating to Graphene Compound Additive (Foam Material) (the “**Target Assets**”) as at 30 June 2015 (the “**Valuation**”) in connection with the proposed acquisition of the Target Assets as set out in the announcement by Baofeng Modern International Holdings Company Limited (the “**Company**”) dated 14 October 2015 (the “**Announcement**”). The Valuation based on the Underlying Forecast is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ responsibility for the discounted future cash flows

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of the Underlying Forecast based on a set of reasonable and valid bases and assumptions (the “**Assumptions**”), based on which the discounted future estimated cash flows and the Valuation of the Target Assets are prepared. The Directors are responsible for the reasonableness and validity of the Assumptions.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report our opinion solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the Underlying Forecast, so far as the calculations are concerned, has been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the Target Assets.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

In our opinion, based on the foregoing, the Underlying Forecast, so far as the calculations are concerned, has been properly compiled in all material aspects in accordance with the Assumptions made by the Directors as set out in the Announcement.

Yours faithfully,

Pan-China (H.K.) CPA Limited

Certified Public Accountants

Wong Ho Yuen, Gary

Practising Certificate Number:P01316

11/F., Hong Kong Trade Centre,
161-167 Des Voeux Road Central
Hong Kong

APPENDIX II – LETTER FROM OPTIMA CAPITAL LIMITED

The following is the text of a letter received from Optima Capital Limited, the financial adviser of the Company, in connection with the profit forecast underlying in the valuation report, for the purpose of inclusion in this announcement.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

14 October 2015

The Board of Directors
Baofeng Modern International Holdings Company Limited
Room 504, 5/F, Office Plus @ Sheung Wan,
93-103 Wing Lok Street,
Sheung Wan,
Hong Kong

Dear Sirs,

We refer to the valuation prepared by Ascent Partners Valuation Service Limited (“**Ascent Partners**”) dated 14 October 2015 in relation to the valuation of the technology know-how and the exclusive formula relating to graphene compound additive (foam material) as at 30 June 2015 (the “**Valuation**”). Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as those defined in the announcement of Baofeng Modern International Holdings Company Limited dated 14 October 2015 (the “**Announcement**”).

We note that the Valuation, which has been developed based on, among other things, the discounted cash flows analysis, is regarded as a profit forecast under Chapter 14 of the Listing Rules. We have reviewed the cash flow forecast in relation to the Technology Know-how and the Exclusive Formula relating to graphene compound additive (foam material) and the estimated discount rate which is based on the estimated weighted average cost of capital after taking consideration of relevant risk free rate and certain risk premium.

We have also discussed with the management of the Company and Ascent Partners regarding the bases and assumptions of the Valuation, and have reviewed the letter issued by Pan-China (H.K.) CPA Limited dated 14 October 2015 as set out in Appendix I to the Announcement containing its opinion on whether the cash flow forecast, so far as the arithmetical accuracy of the calculations are concerned, have been properly compiled in accordance with the bases and assumptions made by the Directors.

On the basis of the foregoing and the opinion of Pan-China (H.K.) CPA Limited, we are of the opinion that the cash flow forecast underlying the Valuation, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours Faithfully,
For and on behalf of
Optima Capital Limited
Beatrice Lung
Managing Director