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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2016 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2015 and the relevant explanatory notes as set out below.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
REVENUE	*4*	**94,854**	105,754
Cost of sales		**(71,456)**	(75,450)
GROSS PROFIT		**23,398**	30,304
Other net income and gains	*4*	**1,308**	7,814
Selling and distribution expenses		**(5,489)**	(7,087)
General and administrative expenses		**(26,734)**	(12,979)
Amortisation expense of intangible assets	*9*	**(26,350)**	–
Finance costs	*5*	**(4,318)**	(4,691)
Fair value gain/(loss) on financial liabilities at fair value through profit or loss		**11,309**	(32,342)
LOSS BEFORE TAX	*6*	**(26,876)**	(18,981)
Income tax expense	*7*	**(310)**	(6,034)
LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(27,186)**	(25,015)
LOSS PER SHARE	*8*		
– Basic (RMB)		**(0.025)**	(0.025)
– Diluted (RMB)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**30 June 2016** *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**85,069**	87,341
Prepaid lease payments		**33,063**	33,485
Intangible assets	*9*	**1,554,667**	1,476,616
		1,672,799	1,597,442
CURRENT ASSETS			
Inventories		**14,919**	31,366
Trade and bills receivables	*10*	**18,809**	39,034
Prepayments, deposits and other receivables		**6,576**	7,451
Pledged deposits		**3,615**	2,723
Cash and bank balances		**432,681**	789,836
		476,600	870,410
CURRENT LIABILITIES			
Trade and bills payables	*11*	**36,163**	38,679
Deposits received, other payables and accruals		**338,414**	630,259
Interest-bearing bank borrowings	*12*	**119,000**	129,570
Warrants	*13*	**6,883**	21,590
Income tax payable		**1,261**	1,640
		501,721	821,738
NET CURRENT (LIABILITIES)/ASSETS		**(25,121)**	48,672
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,647,678**	1,646,114
NON-CURRENT LIABILITIES			
Convertible notes	*13*	**139,078**	91,717
Provision for contingent consideration	*14*	**380,811**	422,285
Deferred tax liability		**3,071**	3,071
		522,960	517,073
NET ASSETS		**1,124,718**	1,129,041
EQUITY			
Share capital	*15*	**71,610**	70,555
Reserves		**1,053,108**	1,058,486
TOTAL EQUITY		**1,124,718**	1,129,041

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company									
		Reserves								
	Share capital	Share premium	Contributed surplus	Statutory surplus fund	Exchange fluctuation reserve	Capital redemption reserve	Share options reserve	Retained profits	Total reserves	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015 (audited)	67,258	350,935	141,376	95,478	155	524	2,879	432,638	1,023,985	1,091,243
Issue of shares upon conversion of convertible notes	3,297	50,704	–	–	–	–	–	–	50,704	54,001
Loss and total comprehensive expense for the period	–	–	–	–	–	–	–	(25,015)	(25,015)	(25,015)
Equity-settled share option arrangements	–	–	–	–	–	–	(1,730)	1,730	–	–
Transfer to statutory surplus fund	–	–	–	909	–	–	–	(909)	–	–
At 30 June 2015 (unaudited)	70,555	401,639	141,376	96,387	155	524	1,149	408,444	1,049,674	1,120,229

For the six months ended 30 June 2016

	Attributable to owners of the Company									
		Reserves								
	Share capital	**Share premium**	**Contributed surplus**	**Statutory surplus fund**	**Exchange fluctuation reserve**	**Capital redemption reserve**	**Share options reserve**	**Retained profits**	**Total reserves**	**Total equity**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2016 (audited)	**70,555**	**401,639**	**141,376**	**96,338**	**155**	**524**	**10,688**	**407,766**	**1,058,486**	**1,129,041**
Issue of shares upon exercise of share options	**1,055**	**14,435**	**–**	**–**	**–**	**–**	**(4,491)**	**–**	**9,944**	**10,999**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,186)**	**(27,186)**	**(27,186)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**–**	**–**	**11,864**	**–**	**11,864**	**11,864**
At 30 June 2016 (unaudited)	**71,610**	**416,074**	**141,376**	**96,338**	**155**	**524**	**18,061**	**380,580**	**1,053,108**	**1,124,718**

NOTES:

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of slippers, sandals and casual footwear. An analysis of the Group's performance for the Period by business segment is set out in note 3 to this interim financial results.

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting issued by the International Accounting Standards Board and the disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

As at 30 June 2016, the Group's current liabilities exceeded its current assets by approximately RMB25,121,000. Included in the Group's current liabilities was the fair value of provision for contingent consideration that will only be settled after fulfilment of Third Instalment Conditions of RMB259,056,000 and under the earnings before interest, taxes, depreciation and amortisation ("EBITDA") Sharing Mechanism of RMB60,364,000, as explained in note 14. The Directors consider that, the settlement of financial obligation under EBITDA Sharing Mechanism, which will be based on actual outcome of operating cash flow generated from certain subsidiary of the Company, would not create any impact on cash outflows in the foreseeable future. After taking out the effect of the fair value of provision for contingent consideration for the portion of EBITDA Sharing Mechanism included in the current liabilities, which has no cash flow impact as at 30 June 2016, the Group would have demonstrated a net current asset status of RMB35,243,000. Accordingly, the Directors consider that it is appropriate to prepare the Interim Financial Statements on a going concern basis.

2. BASIS OF PREPARATION *(Continued)*

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements as detailed below:

The Group has adopted the following new and revised IFRSs which are effective for the Group's financial year beginning on 1 January 2016.

IFRS 14	Regulatory Deferral Accounts
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture – Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

These new and revised IFRSs have had no material impact on the contents of the Interim Financial Statements.

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

3. SEGMENT INFORMATION

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

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

(b) the Baofeng branded products segment manufactures and trades Baofeng branded slippers ("Baofeng Products"); and

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

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

The segment profit or loss represents the profit earned by or loss from each segment without allocation of interest income, other unallocated net income and gains, fair value gain/loss on financial liabilities at fair value through profit or loss ("FVTPL"), finance costs as well as corporate and other unallocated expenses.

Segment assets exclude property, plant and equipment, prepaid lease payments, intangible assets, raw materials, work in progress, prepayments, deposits and other receivables, pledged deposits and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude trade and bills payables, certain other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, income tax payable, deferred tax liability and provision for contingent consideration as these liabilities are managed on a group basis.

Regarding the Brand Licensee Business segment presented for the period ended 30 June 2015, it is not reported in the current period since it ceased operation in 2015.

3. SEGMENT INFORMATION *(Continued)*

Period ended 30 June 2016

	Boree Products *RMB'000* **(unaudited)**	**Baofeng Products** *RMB'000* **(unaudited)**	**OEM** *RMB'000* **(unaudited)**	**Total** *RMB'000* **(unaudited)**
Segment revenue				
Sales to external customers	**710**	**–**	**94,144**	**94,854**
Segment results	**(2,561)**	**–**	**20,470**	**17,909**
Reconciliation:				
Interest income				**795**
Other unallocated net income and gains				**513**
Corporate and other unallocated expenses				**(53,084)**
Fair value gain on financial liabilities at fair value through profit or loss				**11,309**
Finance costs				**(4,318)**
Loss before tax				**(26,876)**

As at 30 June 2016

	Boree Products *RMB'000* **(unaudited)**	**Baofeng Products** *RMB'000* **(unaudited)**	**OEM** *RMB'000* **(unaudited)**	**Total** *RMB'000* **(unaudited)**
Segment assets	**2,165**	**–**	**20,011**	**22,176**
Reconciliation:				
Corporate and other unallocated assets				**2,127,223**
Total assets				**2,149,399**
Segment liabilities	**150**	**150**	**–**	**300**
Reconciliation:				
Corporate and other unallocated liabilities				**1,024,381**
Total liabilities				**1,024,681**

3. SEGMENT INFORMATION *(Continued)*

Period ended 30 June 2015

	Boree Products *RMB'000* (unaudited)	Baofeng Products *RMB'000* (unaudited)	OEM *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue				
Sales to external customers	17,051	–	88,703	105,754
Segment results	7,267	–	15,950	23,217
Reconciliation:				
Interest income				2,157
Other unallocated net income and gains				5,657
Corporate and other unallocated expenses				(12,979)
Fair value loss on financial liabilities at fair value through profit or loss				(32,342)
Finance costs				(4,691)
Loss before tax				(18,981)

As at 31 December 2015

	Boree Products *RMB'000* (audited)	Baofeng Products *RMB'000* (audited)	OEM *RMB'000* (audited)	Total *RMB'000* (audited)
Segment assets	9,734	–	42,940	52,674
Reconciliation:				
Corporate and other unallocated assets				2,415,178
Total assets				2,467,852
Segment liabilities	150	150	–	300
Reconciliation:				
Corporate and other unallocated liabilities				1,338,511
Total liabilities				1,338,811

3. SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC (principal place of operations)	**3,160**	18,691
United States of America ("US")	**89,632**	81,153
South America	**402**	1,786
Europe	**232**	2,360
South East Asia	**258**	1,403
Other countries	**1,170**	361
	94,854	105,754

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

(b) Non-current assets

	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC (principal place of operations)	**1,672,783**	1,597,420

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

Information about major customers

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A	**41,836**	40,722
Customer B	**19,609**	16,456
Customer C*	**13,785**	9,539

* Revenue from Customer C contributed less than 10% of the total sales of the Group for the six months ended 30 June 2015.

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

4. REVENUE, OTHER NET INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Manufacture and sales of goods	**94,854**	105,754
Other net income and gains		
Interest income	**795**	2,157
Sales of scrap material	**258**	1,381
Rental income	**219**	231
Subsidy income	**–**	400
Others	**36**	3,645
	1,308	7,814

5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	**4,318**	4,691

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**70,027**	82,444
Depreciation*	**3,992**	4,980
Amortisation of prepaid lease payments	**422**	422
Minimum lease payments under operating leases in respect of land and buildings*	**205**	3,254
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**24,495**	23,087
Equity-settled share option expense	**11,864**	–
Staff welfares	**614**	756
Contributions to retirement benefits schemes	**1,615**	1,254
	38,588	25,097
(Reversal of impairment loss)/impairment loss on trade receivables	**(263)**	18
Write down/(reversal of write down) of inventories	**1,429**	(6,994)
Loss on disposal of items of property, plant and equipment	**–**	57
Research and development costs**	**1,571**	1,319

* *The cost of inventories sold for the Period includes approximately RMB19,536,000 (2015: RMB22,264,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

** *The research and development costs are included in "General and administrative expenses" on the face of the condensed consolidated statement of profit or loss and other comprehensive income.*

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group's tax losses brought forward from prior years exceeded the assessable profits arising in Hong Kong for the Period (2015: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	**208**	3,610
Under-provision in prior years	**102**	2,424
Total tax charge for the period	**310**	6,034

8. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the Period attributable to owners of the Company of approximately RMB27,186,000 (2015: RMB25,015,000) and the weighted average number of ordinary shares of 1,077,726,861 (2015: 1,019,312,623) in issue during the Period.

The weighted average number of ordinary shares used to calculate the basic loss per share for the Period included the 1,067,579,608 ordinary shares in issue, and 16,200,000 ordinary shares issued on 9 March 2016 in respect of the exercise of share options.

The weighted average number of ordinary shares used to calculate the basic loss per share for the period ended 30 June 2015 included the 1,013,720,833 ordinary shares in issue, and 31,194,997 ordinary shares and 22,663,778 ordinary shares issued on 8 June 2015 and 18 June 2015 in respect of the exercise of the conversion rights attached to the convertible notes.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2016 and 30 June 2015 in respect of a dilution as the exercise prices of the share options and warrants and the conversion price of the convertible notes of the Company outstanding during the Period were higher than the average market price of the Company's ordinary shares for the Period and accordingly, there is no dilutive effect on the basic loss per share.

9. INTANGIBLE ASSETS

	Technology Know-how
	RMB'000
Cost:	
At 1 January 2015	–
Addition during the year	1,483,117
At 31 December 2015 and 1 January 2016	1,483,117
Addition during the Period	104,401
At 30 June 2016	1,587,518
Accumulated amortisation:	
At 1 January 2015	–
Provided for the year	6,501
At 31 December 2015 and 1 January 2016	6,501
Provided for the Period	26,350
At 30 June 2016	32,851
Net carrying amount:	
At 30 June 2016	1,554,667
At 31 December 2015	1,476,616

The intangible assets of the Group as at 30 June 2016 and 31 December 2015 represented certain technological know-how in respect of the application of graphene and includes one patent in the US ("US Patent"), four invention patent applications, three utility model patent applications and two utility model patents in the PRC (collectively as "PRC Patents"), relating to the manufacturing of graphene-based ethylene-vinyl acetate ("EVA") foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively as "Technology Know-how"), acquired from Bluestone Technologies (Cayman) Limited ("Bluestone"), an independent third party, during the year ended 31 December 2015 for a total maximum consideration of RMB1,800 million, which comprises of a maximum of RMB1,648,524,590 in cash; and issuance of convertible notes with a maximum aggregate principal amount of HK$184,800,000 (equivalent to RMB151,475,410).

9. INTANGIBLE ASSETS *(Continued)*

As at 31 December 2015, the above consideration includes initial consideration of RMB450 million ("Initial Consideration") and contingent consideration up to a maximum of RMB1,350 million ("Contingent Consideration") which comprise of:

(a) Initial Consideration

(i) RMB359,114,754 in cash; and

(ii) issue convertible notes with principal amount of HK$110,880,000 (equivalent to RMB90,885,246).

(b) Contingent Consideration

(i) a maximum of approximately RMB1,289,409,836 in cash; and

(ii) issue convertible notes with principal amount of HK$73,920,000 (equivalent to RMB60,590,164).

The completion date of the transaction ("Completion Date") was 16 December 2015. The cost of the Technology Know-how was determined by the Directors of the Company and represents the sum of the cash consideration, the fair value of the convertible notes (note 13) and Contingent Consideration (note 14) at the acquisition date, and the capitalised transaction costs arising directly from the acquisition of the Technology Know-how. During the Period, addition of the intangible assets represented the capitalisation of imputed interest of discounting the Contingent Consideration until the commencement of the use of the Technology Know-how. The Technology Know-how has definite useful lives and is amortised over 10 years using the straight-line method from the use of the Technology Know-how.

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period offered to its customers is generally for a period of three months. The Group seeks to apply strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade and bills receivables, net of allowance for doubtful debts as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**11,075**	32,845
4 to 6 months	**5,255**	1,935
7 to 12 months	**2,479**	4,254
	18,809	39,034

11. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**19,531**	24,240
Over 3 months	**16,632**	14,439
	36,163	38,679

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (31 December 2015: six months). The bills payables of RMB12,047,000 (31 December 2015: RMB7,825,000) were secured by the Group's pledged deposits amounting to RMB3,615,000 as at 30 June 2016 (31 December 2015: RMB2,723,000).

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Secured bank loans repayable within one year	**119,000**	129,570

(a) At 30 June 2016 and 31 December 2015, the bank loans were denominated in Renminbi and bore interest rates ranging from:

Six months ended 30 June 2016	4.60% – 7.58% per annum
Year ended 31 December 2015	1.51% – 7.57% per annum

(b) At 30 June 2016, the secured bank loans of the Group were secured by a pledge of the Group's buildings and land use right, amounting to approximately RMB17,311,000 (31 December 2015: RMB18,945,000) and approximately RMB33,879,000 (31 December 2015: RMB34,301,000) respectively. In addition, the bank loans were guaranteed by an independent third party and the Director of the Company.

13. CONVERTIBLE NOTES AND WARRANTS

Pursuant to a subscription agreement entered into with Asia Equity Value Ltd (the "Subscriber") on 8 June 2012 (the "Subscription Agreement"), the Company issued a 7% senior guaranteed convertible notes with a principal amount of HK$176,000,000 (i.e. RMB143,470,000) (the "2012 Convertible Notes") to the Subscriber on 21 June 2012 (the "Issuance Date"). In addition, pursuant to the Subscription Agreement, the Company also issued to the Subscriber warrants (the "2012 Warrants") which carry the rights to subscribe for 62,026,431 new ordinary shares of the Company as a condition to the issuance of the 2012 Convertible Notes.

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

The 2012 Convertible Notes, 2015 Convertible Notes and 2016 Convertible Notes (collectively as the "Convertible Notes") included a debt instrument with embedded derivatives. Upon initial recognition, the Convertible Notes are designated as financial liabilities at FVTPL. The fair value of the Convertible Notes is remeasured at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

13. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

2012 Convertible Notes

The 2012 Convertible Notes give the holders of the 2012 Convertible Notes (the "Notes Holders") the right (the "Conversion Right") to convert all or any part of the outstanding principal amount of the 2012 Convertible Notes into fully paid ordinary shares of US$0.01 each of the Company at HK$1.31 per share (the "Conversion Price"). The Conversion Price is subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the 2012 Convertible Notes. The Notes Holders can exercise the Conversion Right from time to time during the conversion period from the Issuance Date to the maturity date. The 2012 Convertible Notes shall mature on the third anniversary of the Issuance Date (i.e. 21 June 2015) (the "Maturity Date").

The Conversion Price of the 2012 Convertible Notes had been adjusted from HK$1.31 to HK$1.27 in accordance with the terms and conditions of the 2012 Convertible Notes with effect from 12 October 2012 as the Company declared and announced the 2012 interim dividend of HK2.5 cents per ordinary share on 31 August 2012.

During the year ended 31 December 2014, the Subscriber negotiated with three independent third parties (the "Transferees") to dispose of the 2012 Convertible Notes in the aggregate principal amount of HK$64,000,000, representing the entire outstanding principal amount of the 2012 Convertible Notes, and the agreement (the "Disposal Agreement") was entered amongst the Subscriber and the Transferees on 29 October 2014.

During the year ended 31 December 2015, the Group received a total of three conversion notices from all Notes Holders of the 2012 Convertible Notes in respect of the exercise of the remaining Conversion Rights attached to the 2012 Convertible Notes in the aggregate principal amount of HK$64,000,000 together with aggregate accrued interests of HK$4,400,647 held by the Notes Holders at the Conversion Price of HK$1.27 per share. As a result of this conversion, the Company allotted and issued a total of 53,858,775 ordinary shares to the Notes Holders in June 2015 with additional share capital and share premium of approximately HK$4,175,629 (equivalent to RMB3,296,534) and approximately HK$64,225,018 (equivalent to RMB50,703,725). No 2012 Convertible Notes remain outstanding at the end of 2015.

2015 Convertible Notes and 2016 Convertible Notes ("2015 and 2016 Convertible Notes")

The 2015 and 2016 Convertible Notes entitle the holder to convert them into ordinary shares of the Company at any time from the date of issue of the 2015 and 2016 Convertible Notes to the date immediately prior to the maturity date on 16 December 2018 and 2 February 2019 respectively, being the third anniversary of the date of issue, in multiples of HK$1,000,000 at a conversion price of HK$0.84 per conversion share subject to adjustments in certain events. The shares to be allotted and issued upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. Also, the Company has a right to redeem the 2015 and 2016 Convertible Notes at any time before the maturity date of the 2015 and 2016 Convertible Notes.

During the Period and the year ended 31 December 2015, the 2015 and 2016 Convertible Notes holder did not convert any 2015 and 2016 Convertible Notes.

13. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

Warrants

The 2012 Warrants initially give the holder of the 2012 Warrants (the "Warrants Holder") the rights to subscribe for 62,026,431 new shares of the Company's ordinary shares. The initial subscription price of the 2012 Warrants is HK$1.53 per share (the "Subscription Price"), subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the 2012 Warrants. The subscription period of the 2012 Warrants commences from 6 months after the Issuance Date (i.e. 22 December 2012) (the "Warrants Subscription Date"), and will mature on the fifth anniversary from the Warrants Subscription Date (i.e. 22 December 2017).

Upon the occurrence of any events of defaults or certain events as mentioned in the Subscription Agreement, the Warrants Holder may elect to require the Company to redeem or repurchase all or a portion of its 2012 Warrants at a price equal to the Black Scholes Value in respect of the relevant 2012 Warrants as mentioned in the Subscription Agreement.

On 7 February 2013, the Company had entered into a supplemental instrument with the Subscriber to amend certain major terms and conditions of the 2012 Warrants (the "Supplemental Warrants Instrument"). The Supplemental Warrants Instrument had been approved by the Subscriber as the sole holder of the 2012 Warrants in accordance with the terms and conditions of the 2012 Warrants. In accordance with the Supplemental Warrants Instrument, the Company and the Subscriber agreed that any adjustments to the Subscription Price should take effect if the adjustment is HK$0.01 or more. As a result of the above, the Subscription Price had been adjusted from HK$1.53 to HK$1.49 with effect from 12 October 2012 as a result of the distribution of the 2012 interim dividend of HK2.5 cents per ordinary share by the Company.

According to the Disposal Agreement, the 2012 Warrants were transferred from the Subscriber to the Transferees on 29 October 2014.

On 13 March 2015, the Company entered into a new warrants subscription agreement (the "2015 Warrants Subscription Agreement") with two warrants subscribers (the "2015 Warrants Subscribers") in relation to the issue of a total of 88,000,000 warrants (the "2015 Warrants") to the 2015 Warrants Subscribers at the issue price of HK$0.07 per 2015 Warrant.

The 2015 Warrants entitle the 2015 Warrants Subscribers to subscribe for 88,000,000 shares (the "New Shares") of initially HK$1.5 per New Share (subject to adjustments in accordance with the terms of the 2015 Warrants) for a period of eighteen months commencing from the date of issue of the 2015 Warrants, i.e. 21 April 2015.

Upon full subscription of the 2012 Warrants and 2015 Warrants (collectively as the "Warrants"), a total of 151,691,570 new shares will be issued and the net proceeds upon full subscription are approximately HK$226,900,000 (i.e. RMB193,925,000).

13. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

Warrants *(Continued)*

No warrants have been exercised during the Period and the year ended 31 December 2015.

The Warrants are classified as derivatives and are accounted for as financial liabilities at FVTPL upon initial recognition. The fair value of the Warrants are remeasured at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

Valuation of the Convertible Notes and the Warrants

The movements of the Convertible Notes and the Warrants were as follows:

	2012 Convertible Notes	2015 Convertible Notes	2016 Convertible Notes	2012 Warrants	2015 Warrants	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fair value at 1 January 2015	53,123	–	–	4,137	–	57,260
Issued during the year	–	91,717	–	–	4,880	96,597
Converted during the year	(54,001)	–	–	–	–	(54,001)
Fair value loss charged to profit or loss during the year	878	–	–	7,009	5,564	13,451
Fair value at 31 December 2015 and 1 January 2016	–	91,717	–	11,146	10,444	113,307
Issued during the Period	–	–	55,411	–	–	55,411
Fair value gain credited to profit or loss during the Period	–	(8,050)	–	(4,264)	(10,443)	(22,757)
Fair value at 30 June 2016	–	83,667	55,411	6,882	1	145,961
Represented by:						
Current portion	–	–	–	6,882	1	6,883
Non-current portion	–	83,667	55,411	–	–	139,078
	–	83,667	55,411	6,882	1	145,961

13. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

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

As at 30 June 2016 and 31 December 2015, the fair values of the 2012 and 2015 Warrants were based on the valuations performed by Asset Appraisal Limited. The fair value of the 2015 and 2016 Convertible Notes was based on the valuations performed by Ascent Partners Valuation Service Limited ("Ascent Partners"). Both valuers are independent firms of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	30 June 2016	31 December 2015
2015 Convertible Notes		
Stock price (HK$)	**0.66**	0.77
Principal amount (HK$'000)	**110,880**	110,880
Coupon rate (%)	**0**	0
Conversion price (HK$)	**0.84**	0.84
Volatility (%)	**79.27**	74.08
Risk-free rate (% per annum)	**0.51**	0.74
Expected life (years)	**2.46**	3.00
Expected dividend yield (%)	**0**	0
2016 Convertible Notes		
Stock price (HK$)	**0.66**	N/A
Principal amount (HK$'000)	**73,920**	N/A
Coupon rate (%)	**0**	N/A
Conversion price (HK$)	**0.84**	N/A
Volatility (%)	**76.43**	N/A
Risk-free rate (% per annum)	**0.52**	N/A
Expected life (years)	**2.59**	N/A
Expected dividend yield (%)	**0**	N/A
2012 Warrants		
Stock price (HK$)	**0.66**	0.78
Exercise price (HK$)	**1.49**	1.49
Volatility (%)	**87.94**	82.61
Risk-free rate (% per annum)	**0.36**	0.36
Expected life (years)	**1.48**	1.98
Expected dividend yield (%)	**0**	0
2015 Warrants		
Stock price (HK$)	**0.66**	0.78
Exercise price (HK$)	**1.50**	1.50
Volatility (%)	**43.24**	105.99
Risk-free rate (% per annum)	**0.16**	0.11
Expected life (years)	**0.31**	0.81
Expected dividend yield (%)	**0**	0

14. PROVISION FOR CONTINGENT CONSIDERATION

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

The provision for contingent consideration is classified as a financial liability as it is resulted from a contract that will or may be settled in the Company's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. The amount will then be measured at fair value and any changes in fair value will be recognised in the statement of profit or loss.

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

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

Upon fulfilment of the Second Instalment Conditions, the second instalment in the amount of RMB450,000,000 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 notes with principal amount of HK$73,920,000 to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Second Instalment Conditions.

Bluestone should procure the Second Instalment Conditions to be fulfiled within 6 months after the Completion Date.

During the Period, the Company has paid RMB389,409,836 by way of cash and RMB60,590,164 by way of issuing the convertible notes with principal amount of HK$73,920,000 as the second instalment of the Contingent Consideration on 2 February 2016.

14. PROVISION FOR CONTINGENT CONSIDERATION *(Continued)*

"Third Instalment Conditions" refer to (a) the accumulated turnover of a special purpose vehicle ("SPV") to be established by the Group for the sales of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based wearable devices manufactured using the Technology Know-how and/or any other companies (other than companies of the Group) authorised to use the Technology Know-how having reached RMB40,000,000; and (b) the sales volume of graphene-based EVA foam material having reached 20,000 cubic meters, each within 9 months after the Completion Date (or such later date as the Company may agree).

Upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the third instalment in the amount of RMB270,000,000 shall be payable by the Company in cash to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Third Instalment Conditions.

Bluestone should procure the Third Instalment Conditions to be fulfiled 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 fulfiled within 6 months after the Completion Date (or such later date as the Company may agree), or (ii) the Third Instalment Conditions cannot be fulfiled 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.

Pursuant to the Acquisition Agreement, upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, Bluestone is entitled to share 35% of the EBITDA of the SPV for the 6-month period ended 30 June or 31 December of each year ("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 Bluestone or its nominee(s) within 15 business days after the issuance of such certificate. Any license fees for the Technology Know-how payable by the SPV to the Group will be disregarded in the calculation of the EBITDA.

If the accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism is less than RMB1,800,000,000 (for the purpose, if the SPV records a loss in any Interim Financial Period, the EBITDA of the SPV of that Interim Financial Period would be regarded as zero in calculating the accumulated EBITDA), the total sharing amount under the EBITDA Sharing Mechanism will be less than RMB630,000,000 and the Company is not obligated to pay the shortfall between RMB630,000,000 and 35% of the actual accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism.

14. PROVISION FOR CONTINGENT CONSIDERATION *(Continued)*

As at 30 June 2016, provision for contingent consideration represented the fair value of contingent consideration of a maximum of approximately RMB900,000,000 in cash after fulfilment of the Third Instalment Conditions and under the EBITDA Sharing Mechanism, which was appraised by Ascent Partners.

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

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
As at the beginning of the Period/year	**1,029,203**	–
Acquired on acquisition of the Technology Know-how during the year	**–**	1,029,203
Settlement during the Period	**(340,420)**	–
Fair value loss charged to profit or loss during the Period	**11,448**	–
As at the end of the Period/year	**700,231**	1,029,203
Current portion included in deposits received, other payables and accruals	**(319,420)**	(606,918)
Non-current portion	**380,811**	422,285

The fair value of the provision for contingent consideration is calculated using the binomial model. The inputs into the model as at 30 June 2016 and 31 December 2015 were as follows:

	30 June 2016	31 December 2015
Stock price (HK$)	**N/A**	0.77
Coupon rate (%)	**N/A**	0
Conversion price (HK$)	**N/A**	0.84
Expected dividend yield (%)	**N/A**	0
Expected volatility (%) (note a)	**N/A**	70.14
Expected life (years) (note b)	**N/A**	3.54
Risk free rate (% per annum) (note c)	**N/A**	0.83
Discount rate	**16.53-16.73%**	18.78%

(a) Expected volatility for the Contingent CNs was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the expected remaining life of the Contingent CNs.

(c) The risk free rate for the Contingent CNs is determined by reference to the yield of the Hong Kong Generic Bond.

(d) All Contingent CNs have already been issued as at 30 June 2016.

15. SHARE CAPITAL

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

	Number of ordinary shares of US$0.01 each	Nominal value of ordinary shares *US$'000*	Nominal value of ordinary shares *RMB'000*
Authorised:			
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2015	1,013,720,833	10,137	67,258
Issue of shares upon conversion of convertible notes	53,858,775	539	3,297
At 31 December 2015 and 1 January 2016	1,067,579,608	10,676	70,555
Issue of shares upon exercise of share options	16,200,000	162	1,055
At 30 June 2016	1,083,779,608	10,838	71,610

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**981**	1,066
Contributions to retirement benefits schemes	**15**	17
	996	1,083

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2016, the Group focused on the graphene technology application and the development of graphene application products and successfully launched a new graphene-based sterilizing foam material product (the "New Product") in June 2016, the Group therefore spent less effort on the marketing of the own branded products, resulting in a decrease in the sales of own branded products during the Period by approximately RMB16.3 million. However, the Group still maintained a mild increase of the revenue in the OEM Business, which contributed the largest portion of revenue of the Group, by approximately RMB5.4 million or 6.1%. Combining the abovementioned effects, the revenue of the Group decreased by approximately RMB10.9 million or 10.3% to approximately RMB94.9 million from the last corresponding period (2015: RMB105.8 million).

During the Period, the gross profit margin of the Group decreased to 24.7% (2015: 28.7%), which was mainly attributable to the reversal of write down of inventories recognised in the last corresponding period. Excluding the write down of inventories for the Period of approximately RMB1.4 million (2015: reversal of write down of inventories of RMB7.0 million), the adjusted gross profit margin improved from 22.0% in the last corresponding period to 26.2% for the Period as a result of improvement of technology.

During the Period, the Group recorded a net loss of approximately RMB27.2 million (2015: RMB25.0 million), which is mainly attributable to (i) share-based payment expenses of approximately RMB11.9 million (2015: Nil) in relation to the share options granted by the Company on 10 December 2015 and 24 June 2016; (ii) amortisation expense of intangible assets of approximately RMB26.4 million (2015: Nil) in relation to the acquisition of the Technology Know-how from Bluestone on 16 December 2015; which was offset by (iii) the fair value gain of financial liabilities at FVTPL of approximately RMB11.3 million (2015: loss of RMB32.3 million).

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2016	2015	Increase/
	RMB'000	*RMB'000*	(decrease)
	(unaudited)	(unaudited)	*% change*
Revenue (Boree Products)	**710**	17,051	(95.8%)
Revenue (OEM Business)	**94,144**	88,703	6.1%
Revenue (Total)	**94,854**	105,754	(10.3%)

For the Period under review, the revenue of the Group decreased by 10.3% to approximately RMB94.9 million as compared with that of the last corresponding period (2015: RMB105.8 million). Revenue from Boree Products decreased by 95.8% to approximately RMB0.7 million during the Period (2015: RMB17.1 million), as a result of less selling expenses spent on the marketing of Boree Products. With the help of technology improvement to improve the product quality, the revenue from the OEM business increased by 6.1% to approximately RMB94.1 million (2015: RMB88.7 million).

Selling and Distribution Expenses

During the Period, selling and distribution expenses decreased by 22.5% to approximately RMB5.5 million as compared with that of last corresponding period (2015: RMB7.1 million), which accounted for 5.8% (2015: 6.7%) of the Group's revenue. The decrease was mainly attributable to less marketing activities held for the promotion of Boree Products.

General and Administrative Expenses

General and administrative expenses recorded an increase of approximately RMB13.8 million or 106% for the Period (2015: RMB13.0 million), which was mainly attributable to share-based payment expenses of approximately RMB11.9 million in relation to the share options granted by the Company on 10 December 2015 and 24 June 2016 and more exchange losses incurred during the Period.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB38.8 million (2015: RMB23.8 million), which was mainly due to the implementation of stricter credit control towards the customers to shorten the trade debt collection cycle. As at 30 June 2016, cash and bank balances were approximately RMB432.7 million, representing a decrease of 45.2% as compared with approximately RMB789.8 million as at 31 December 2015. The decrease was mainly due to the payment for the cash portion of the second instalment of the acquisition of the Technology Know-how of RMB389.4 million. As at 30 June 2016, most of the Group's cash and bank balances, representing over 98% was denominated in Renminbi. As at 30 June 2016, the interest-bearing bank borrowings of the Group were approximately RMB119.0 million (31 December 2015: RMB129.6 million). All bank loans were denominated in Renminbi with fixed interest rates and repayable within one year.

Capital Structure

As at 1 January 2016, there were 1,067,579,608 shares in issue and the Company carried a share capital of approximately RMB70,555,000. During the Period, the Company issued 16,200,000 shares to share option holders who exercised their share options. As at 30 June 2016, the Company had 1,083,779,608 shares in issue and a paid-up capital of approximately RMB71,610,000.

Significant Investments, Material Acquisitions and Disposals

Saved for the addition of the Technology Know-how as disclosed in note 9 , the Group did not have any other significant investments, material acquisitions and disposals during the Period.

Pledge of Assets

As at 30 June 2016, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB3.6 million (31 December 2015: RMB2.7 million). The bank borrowings of the Group were also secured by a pledge of the Group's buildings and land use right with a net carrying value of approximately RMB17.3 million (31 December 2015: RMB18.9 million) and approximately RMB33.9 million (31 December 2015: RMB34.3 million) respectively.

Contingent Liabilities

As at 30 June 2016 and 31 December 2015, there were no material contingent liabilities.

Foreign Exchange Risk

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

Gearing Ratio

As at 30 June 2016, the gearing ratio of the Group was 47.6% (31 December 2015: 54.2%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refer to the total liabilities minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 30 June 2016, the Group had a total of approximately 830 employees (31 December 2015: 900 employees), with total staff costs for the Period, including directors' remuneration, amounted to approximately RMB38,588,000 (2015: RMB25,097,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 30 June 2016, the Company had unutilised net proceeds from the Initial Public Offering (''IPO'') in the amount of approximately RMB142.0 million, representing approximately 36.6% of the total net proceeds from the IPO (the "Unutilised Net Proceeds"). In light of current market conditions of footwear industry in the PRC, the Company believes that the use of the Unutilised Net Proceeds under the original intended purpose may no longer meets the Group's imminent business development needs. In order to maximise the benefits of the Company and its shareholders, the Company may change the usage of the Unutilised Net Proceeds from the original intended purposes to working capital and other general corporate purposes of the Group. If this happens, further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules on the Stock Exchange.

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

The utilisation of the net proceeds as at 30 June 2016 is set out as follows:

Nature	**Amount raised**	**Amount utilised**
	RMB'000	*RMB'000*
To increase production capacity	135,683	88,045
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	13,448
To establish flagship shops and showrooms	19,383	4,090
To strengthen the distribution resource planning system	19,383	4,409
General working capital	38,767	38,767
Total:	387,666	245,676

Use of Net Proceeds from the Issue of 2015 Warrants

The net proceeds from the issue of 2015 Warrants of approximately HK$6,000,000 was intended to be retained in Hong Kong as general working capital of the Company and its offshore subsidiaries incorporated in Hong Kong and overseas (the "Offshore Group Members") to settle the expenses such as administrative expenses, the professional fees and the salary expenses incurred by the Offshore Group Members. If the subscription rights attached to the 2015 Warrants are fully exercised, it is expected that an additional net amount of HK$132,000,000 will be raised and such proceeds will be used for general working capital of the Offshore Group Members and for the promotion and expansion of the sales network and development of the Online-to-Offline ("O2O") business model for the sales and distribution of the products of the Group in the offshore market. The net proceeds of approximately HK$6,000,000 from the issue of 2015 Warrants have been fully utilised for general working capital of the Offshore Group Members to settle the expenses such as administrative expenses, the professional fees and the salary expenses incurred by the Offshore Group Members during the year ended 31 December 2015. No warrants from the issue of 2015 Warrants have been exercised as at 30 June 2016.

BUSINESS REVIEW AND FUTURE PROSPECTS

Sales of the Group for the Period were approximately RMB94.9 million, representing a decrease of approximately 10.3% as compared with approximately RMB105.8 million for the corresponding period in 2015, principally attributable to the decrease in the sales of own branded products during the Period. In the first half of 2016, the Group focused on the graphene technology application and the development of graphene application products and successfully launched a new graphene-based sterilizing foam material product in June 2016. The Group therefore spent less effort on the marketing of the own branded products in the first half of 2016 as compared to the corresponding period in 2015 and plans to gradually replace its existing products with graphene application products.

The Group's first graphene application products mass production line was completed and commenced trial production in late May 2016, and mass production has already been commenced in July 2016. The Group has successfully applied the Technology Know-how by applying graphene in the production of graphene-based EVA foam material, shoe mats etc, with sterilizing, good elasticity and tear resistant functions, and will continue to develop more graphene application products. As disclosed in the announcement of the Company dated 22 July 2016, Xinfeng 2D (Fujian) Material Technology Company Ltd., the indirect wholly-owned subsidiary of the Company, has signed a sales contract with a large domestic sportswear brand customer in the PRC for the supply of the New Product. The New Product is the result of the Group's commercialised and extensive use of the Technology Know-how. The Board considers that the entering into of the sales contract is the representation of the recognition of the effect of the application of graphene technology on our products by our customer, and the indication of customer's confidence in the effectiveness of the application of graphene-based EVA foam material in the production of shoes. The Group will continue to expand its business from traditional industries to high technology industries to create long-term benefits for the Group.

Furthermore, to cope with the change of customers' buying habit to online shopping, the Group will develop various distribution channels and focus on the development of the O2O business model for the sales and distribution of its products in the second half of 2016, which will be beneficial to the Group. As disclosed in the announcement of the Company dated 18 July 2016, the Group has engaged a PRC domestic company to design and develop the do-it-yourself ("DIY") automated vending system which is the key machine for the O2O business model. The Directors are of the view that the introduction of the DIY automated vending system will contribute to the Group in the following three areas:

1. Market interaction model: The DIY automated vending system will provide customers with tailor-made interactive and unique shopping experience;

2. Business model: The business model of the DIY automated vending system is likely to replace the traditional shop sales model, establish another essential and effective distribution channel and improve the profitability of the products of the Group;

3. Product technology: The graphene application products sold by the DIY automated vending system will establish the core technical competitiveness of the Group.

The Group will put more efforts into the marketing of the New Product and own branded products in the second half of 2016. Given its stable OEM business, the commercialization and extensive application of the Technology Know-how, and the development of the O2O business model, the Directors expect that the Group's sales will improve in the second half of 2016.

OTHER INFORMATION

Interim Dividend

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

Corporate Governance

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The audit committee was established by the Board with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process, risk management and internal control systems, review the effectiveness of the Group's internal audit function and review and monitor appointment of the auditors and their independence.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 26 August 2016

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