China Baofeng (International) Limited
中國寶豐(國際)有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 3966)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

- Revenue of the Group for the six months ended 30 June 2017 amounted to approximately HK$444.2 million, representing an increase of approximately 115% as compared with the corresponding period of last year.

- Gross profit of the Group for the six months ended 30 June 2017 amounted to approximately HK$239.2 million, representing an increase of approximately 589% as compared with the corresponding period of last year.

- Profit attributable to the owners of the Company for the six months ended 30 June 2017 was approximately HK$202.9 million, as compared with a loss of approximately HK$1.4 million for the corresponding period of last year.

- Earnings per share for the six months ended 30 June 2017 was 35.75 HK cents (loss per share for the six months ended 30 June 2016: 0.28 HK cents).

- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

The board (the "**Board**") of directors (the "**Directors**") of China Baofeng (International) Limited (the "**Company**") (collectively with its subsidiaries, the "**Group**") is pleased to present the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2017 together with the unaudited comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	**444,151**	206,703
Cost of sales		**(204,956)**	(171,973)
Gross profit		**239,195**	34,730
Other income		**19,144**	734
Selling expenses		**(11,854)**	(11,639)
Administrative expenses		**(28,235)**	(19,739)
Research and development expenses		**(3,294)**	(2,803)
Finance costs	*3*	**(4,572)**	–
Profit before taxation	*4*	**210,384**	1,283
Taxation	*5*	**(7,452)**	(2,685)
Profit (loss) for the period		**202,932**	(1,402)
Other comprehensive income (expense) for the period			
Exchange differences arising on translation of foreign operations		**20,266**	(2,322)
Total comprehensive income (expense) for the period		**223,198**	(3,724)
Earnings (loss) per share – Basic	*7*	**35.75 HK cents**	(0.28) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	**At 30 June 2017** ***HK$'000*** **(Unaudited)**	At 31 December 2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**95,893**	68,570
Prepaid rental expenses for photovoltaic facilities	*8*	**94,828**	–
Rental deposit		**2,013**	2,013
Deferred tax asset		**967**	978
Intangible asset		**612**	659
		194,313	72,220
Current assets			
Inventories		**21,164**	21,615
Trade and other receivables	*9*	**513,787**	312,669
Prepaid rental expenses for photovoltaic facilities	*8*	**109,613**	55,136
Pledged bank deposit		**22,989**	–
Bank balances and cash		**177,257**	316,345
		844,810	705,765
Current liabilities			
Trade and other payables	*10*	**77,212**	64,320
Provision		**7,713**	7,145
Tax payable		**5,066**	75
Bank borrowings	*11*	**269,500**	250,000
		359,491	321,540
Net current assets		**485,319**	384,225
Total assets less current liabilities		**679,632**	456,445

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
At 30 June 2017

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
Non-current liability			
Deferred tax liability		**77**	88
Net assets		**679,555**	456,357
Capital and reserves			
Share capital	*12*	**5,677**	5,677
Reserves		**673,878**	450,680
Total equity		**679,555**	456,357

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note a)	Statutory surplus reserve HK$'000 (Note b)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017 (audited)	5,677	289,547	(1)	16,949	(28,043)	172,228	456,357
Profit for the period	–	–	–	–	–	202,932	202,932
Exchange differences arising on translation of foreign operations	–	–	–	–	20,266	–	20,266
Total comprehensive income for the period	–	–	–	–	20,266	202,932	223,198
Transfer	–	–	–	22,222	–	(22,222)	–
At 30 June 2017 (unaudited)	5,677	289,547	(1)	39,171	(7,777)	352,938	679,555
At 1 January 2016 (audited)	4,800	32,523	(1)	–	530	47,632	85,484
Loss for the period	–	–	–	–	–	(1,402)	(1,402)
Exchange differences arising on translation of foreign operations	–	–	–	–	(2,322)	–	(2,322)
Total comprehensive expense for the period	–	–	–	–	(2,322)	(1,402)	(3,724)
Issue of shares	252	60,480	–	–	–	–	60,732
Share issue expenses	–	(693)	–	–	–	–	(693)
At 30 June 2016 (unaudited)	5,052	92,310	(1)	–	(1,792)	46,230	141,799

Notes:

a. Special reserve represents the reserve arising from group reorganisation in 2012.

b. In accordance with relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "**PRC**"), the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under relevant accounting principles and financial regulations applicable to enterprises established in the PRC to the statutory surplus reserve up to the amount in aggregate of 50% of the registered capital of the respective PRC subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

In the current interim period, the Company and its subsidiaries (collectively referred as the "**Group**") have applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the periods is as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from photovoltaic power generation *(Note)*	**252,828**	–
Sales of lighting products	**191,323**	206,703
	444,151	206,703

Note: Revenue from photovoltaic power generation included tariff adjustment from the state grid company in the PRC based on the prevailing nationwide government policies on renewable energy for solar power plants amounting to RMB161,586,000 (equivalent to HK$183,621,000) (2016: nil).

Information reported to the executive Directors of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on the revenues and gross profit from different types of business divisions. The CODM of the Company reviewed separately the financial results of photovoltaic power generation business and lighting product business for resources allocation and performance assessment of the Group. Accordingly, the Group's operating and reportable segments under HKFRS 8 are as follows:

(i) Photovoltaic power generation represents sales of electricity, development, construction, management and operation of a solar power plant ("**Photovoltaic power generation**").

(ii) Lighting product business represents the sales of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products ("**Sales of lighting products**").

Segment revenue and results

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

For the six months ended 30 June 2017 (unaudited)

	Photovoltaic power generation *HK$'000*	**Sales of lighting products** *HK$'000*	**Total** *HK$'000*
SEGMENT REVENUE			
External sales	**252,828**	**191,323**	**444,151**
Segment profit	**214,303**	**11,592**	**225,895**
Unallocated income			**129**
Unallocated expenses			
– Administrative expenses			**(11,068)**
– Finance costs			**(4,572)**
Profit before taxation			**210,384**

For the six months ended 30 June 2016 (unaudited)

	Photovoltaic power generation *HK$'000*	Sales of lighting products *HK$'000*	Total *HK$'000*
SEGMENT REVENUE			
External sales	–	206,703	206,703
Segment (loss) profit	(280)	7,042	6,762
Unallocated income			502
Unallocated expenses			
– Administrative expenses			(5,981)
Profit before taxation			1,283

Segment profit (loss) represents the profit earned (loss incurred) by each segment and hence is arrived at without allocation of certain income and expenses (including other income, administration expenses and finance costs). This is the measure reported to the CODM of the Company, for the purposes of resources allocation and assessment of segment performance.

Geographical information

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

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

	Revenue from external customers		Non-current assets (other than deferred tax asset)	
	Six months ended 30 June		As at 30 June	As at 31 December
	2017	2016	**2017**	2016
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Hong Kong	**–**	–	**5,382**	6,007
PRC	**252,828**	–	**185,014**	61,776
USA	**188,556**	202,907	**2,950**	3,459
Canada	**2,767**	3,796	**–**	–
Total revenue/non-current assets	**444,151**	206,703	**193,346**	71,242

3. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	*HK\$'000*
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings	**4,572**	–

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Staff costs, including Directors' remuneration		
Salaries, wages and other benefits	**21,958**	18,821
Retirement benefits scheme contributions	**775**	452
	22,733	19,273
Amortisation of intangible asset	**47**	47
Auditor's remuneration	**600**	450
Cost of inventories recognised as expenses	**201,405**	168,310
Depreciation of property, plant and equipment	**3,262**	830
Net exchange loss	**–**	144
Operating lease rentals		
– rented premises	**7,370**	3,530
– photovoltaic facilities	**43,690**	–
Research expenditures, including staff costs of HK$1,890,000 (for the six months ended 30 June 2016: HK$1,476,000)	**3,294**	2,803
and after crediting:		
Interest income	**358**	15
Net exchange gain	**397**	–

5. TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation:		
– Hong Kong Profits Tax	**2,741**	2,724
– PRC Enterprise Income Tax ("**EIT**")	**2,429**	125
– Withholding tax in the PRC	**2,282**	–
	7,452	2,849
Deferred taxation	**–**	(164)
Total	**7,452**	2,685

The Company and the subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% on assessable profits earned in Hong Kong for both periods.

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

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

The withholding tax represented taxation recognised in respect of the dividend to be distributed from profit earned by a subsidiary in the PRC under the Implementation Regulation of the EIT Law of Mainland China that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders. Deferred taxation has not been recognised in respect of certain undistributed retained profits earned by the subsidiary in the PRC amounting to approximately HK$321,226,000 (2016: nil) as the Directors are of the opinion that the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDEND

The Directors do not recommend payment of any dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the period attributable to owners of the Company of HK$202,932,000 (for the six months ended 30 June 2016: loss of HK$1,402,000) and the weighted average number of 567,696,000 (2016: 494,677,000) ordinary shares of the Company.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both periods.

8. PREPAID RENTAL EXPENSES FOR PHOTOVOLTAIC FACILITIES

	At 30 June 2017	At 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Amounts of prepaid rental expenses for photovoltaic facilities analysed as:		
Current	**109,613**	55,136
Non-current	**94,828**	–
	204,441	55,136

During the prior period, the Group had entered into a lease agreement for photovoltaic facilities with an independent photovoltaic facilities provider for the rental period from 18 May 2016 to 17 May 2017, with the annual rental payment amounting to RMB90,000,000 (equivalent to approximately HK$105,300,000) and the full amount was paid in advance. During the current period, the Group has renewed the lease agreement for photovoltaic facilities for the rental period from 18 May 2017 to 17 May 2019 with total rental payment amounting to RMB180,000,000 (equivalent to approximately HK$206,897,000) and the full amount was paid in advance.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 *HK$'000* (Unaudited)	At 31 December 2016 *HK$'000* (Audited)
Trade receivables	**101,046**	97,073
Less: Allowance for doubtful debts	**(990)**	(990)
	100,056	96,083
Tariff adjustment receivables *(Note a)*	**394,892**	167,000
Total trade receivables and tariff adjustment receivables	**494,948**	263,083
Bill receivables	**16,194**	3,675
Advance to a photovoltaic facilities provider *(Note b)*	**–**	44,643
Other receivables and prepayment	**2,645**	1,268
	513,787	312,669

Notes:

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

In the opinion of the Directors of the Company, the revenue recognition of tariff adjustment is proper based on their judgement and taking into account the opinion from the Group's PRC legal advisor, that the Group's operating solar power plant has qualified for registration in the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄) (the "Catalogue"), and has met all the relevant requirements and conditions for the registration in the Catalogue. The Directors of the Company are confident that the Group's operating solar power plant is able to be registered in the Catalogue in due course and the tariff adjustment receivables are fully recoverable upon the allocation of funds from the PRC government.

The tariff adjustment receivables are initially measured at fair value and are subsequently measured at amortised cost using effective interest method by applying an effective interest rate of 3.11% per annum with reference to the China Government Bond coupon rate. Imputed interest income of approximately RMB3,298,000 (equivalent to HK$3,791,000) (for the six months ended 30 June 2016: nil) was recognised in profit or loss during the period.

(b) The amount as at 31 December 2016 represented payment on behalf of a photovoltaic facilities provider for the purchase of photovoltaic facilities. The amount was non-interest bearing and was fully settled during the period.

The Group allows credit period with a range from 30 to 90 days to its customers. The following is an aged analysis of trade receivables and tariff adjustment receivables net of allowance for doubtful debts presented based on the invoice date for sales of goods and electricity transmitted dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	At 30 June 2017 *HK$'000* **(Unaudited)**	At 31 December 2016 *HK$'000* (Audited)
Not yet due *(Note)*	**394,892**	167,000
0 to 30 days	**44,937**	42,875
31 to 60 days	**29,879**	26,584
61 to 90 days	**19,450**	16,680
Over 90 days	**5,790**	9,944
	494,948	263,083

Note: The amounts represent tariff adjustments to be received based on the prevailing national government policies on renewable energy.

10. TRADE AND OTHER PAYABLES

	At 30 June 2017 *HK$'000* **(Unaudited)**	At 31 December 2016 *HK$'000* (Audited)
Trade payables	**46,342**	40,170
Accrued sales commission	**705**	572
Other payables and accruals	**30,165**	23,578
	77,212	64,320

The credit period granted by suppliers to the Group ranged from 30 to 60 days. The following is an aged analysis of trade payables presented based on invoice date at the end of the period:

	At 30 June 2017 *HK$'000* **(Unaudited)**	At 31 December 2016 *HK$'000* (Audited)
0 to 30 days	**27,768**	29,926
31 to 60 days	**15,344**	6,248
61 to 90 days	**1,941**	875
Over 90 days	**1,289**	3,121
	46,342	40,170

11. BANK BORROWINGS

During the current period, the Group obtained a new bank borrowing denominated in HK$ in the amount of HK$19,500,000 (six months ended 30 June 2016: HK$130,000,000). The new bank borrowing bears interest at Hong Kong Interbank Offered Rate plus 1.7% per annum and is repayable within one year with a repayable on demand clause. No repayment of bank borrowings, was noted for both periods.

12. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	800,000,000	8,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2016	480,000,000	4,800
Issue of ordinary shares *(Note)*	25,200,000	252
At 30 June 2016 (unaudited)	505,200,000	5,052
Issue of ordinary shares *(Note)*	62,496,000	625
At 1 January 2017 and 30 June 2017 (unaudited)	567,696,000	5,677

Note: During the year of 2016, an aggregate of 25,200,000 and 62,496,000 ordinary shares with par value of HK$0.01 per share of the Company have been placed to independent third parties at the price of HK$2.41 and HK$3.2 per share, respectively. The shares issued rank pari passu in all respects among themselves and with the existing issued shares. The Directors intend to use the net proceeds to finance the strategic diversification in photovoltaic generation business, and as general working capital for existing operation of the Group.

13. PLEDGE OF ASSETS

At 30 June 2017, a bank deposit of RMB20,000,000 (equivalent to HK$22,989,000) (31 December 2016: nil) and its land and buildings with carrying value of HK$802,000 (31 December 2016: HK$844,000) was pledged to banks to secure banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Photovoltaic Power Generation Industry

As an important renewable energy source to resolve energy supply dilemma and severe environmental pollutions in China, the photovoltaic power generation has embraced a rapid development in China over the past few years. In 2010, the cumulative photovoltaic installed capacity was only 0.9 gigawatt ("**GW**"), while by the end of 2016, the cumulative photovoltaic installed capacity has already reached 77.4 GW. The proportion of cumulative photovoltaic installed capacity to cumulative installed capacity for electricity generation in China increased from 0.1% by the end of 2010 to 4.7% by the end of 2016.

The National Development and Reform Commission ("**NDRC**") and the National Energy Administration ("**NEA**") issued the 13th Five-Year Plan of Solar Power Development (the "**13th Five-Year Plan**") in December 2016, which has set an ambitious target for the photovoltaic installed capacity to reach 105 GW by 2020. Implementing the 13th Five-Year Plan, China's photovoltaic power generation industry maintained rapid growth during the first half of 2017, with its cumulative photovoltaic installed capacity reaching 102 GW by the end of June of 2017.

Due to the strong solar radiation and vast available land resources, northwest China (the "**Northwest China**") region, including Shaanxi Province (陝西省), Gansu Province (甘肅省), Qinghai Province (青海省), Ningxia Hui Autonomous Region ("**Ningxia**")(寧夏回族自治區) and Xinjiang Uyghur Autonomous Region (新疆維吾爾自治區), belongs to the no.1 resource area zone and boasts great potential for photovoltaic power station construction. In 2016, the cumulative installed capacity in the five provinces of Northwest China reached 30.9 GW, accounted for around 40% of the total cumulative installed capacity in China.

The large scale development of new energy power plants in Northwest China outpaced the growth of local power demand and inter-provincial power transmission capacity, leading to curtailment of electricity generated from photovoltaic power plants in recent years. In order to reduce the curtailment rates of renewable energies, the PRC government implemented several measures including the upgrading of transmission and distribution networks as well as the design of a quota-based system pursuant to which grid operators have to purchase minimum quantities of electricity from photovoltaic power plant operators. Solving the curtailment of renewable energy power generation has also been mentioned as one of the targets in the 13th Five-Year Plan. With the multi-measures implemented by the PRC government, the curtailment issue in Northwest China is anticipated to be alleviated.

Portable Lighting Products Industry

The development in the global portable lighting products industry in the first half of 2017 appeared to be weak due to the increase in competition. The United States portable lighting market, the principal market of our Group's lighting products, has been highly saturated with numerous firms selling a diverse range of products manufactured both domestically and internationally.

Business Review

During the period under review, the core business of the Group was divided into two major segments, which are (i) photovoltaic power generation in the PRC (the "**Photovoltaic Power Generation Business**"); and (ii) the sales of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products (the "**Lighting Products Business**").

Benefiting from the commencement of the Photovoltaic Power Generation Business in mid-2016, the Group's operation delivered a strong improvement in terms of revenue and profitability during the first half of 2017 as compared with the corresponding period in 2016. For the six months ended 30 June 2017, the Group's revenue grew approximately 115% to approximately HK$444.2 million as compared with the corresponding period in 2016, mainly contributed by the revenue contribution from the Photovoltaic Power Generation Business. Profit attributable to owners of the Company was approximately HK$202.9 million for the six months ended 30 June 2017 as compared with a loss of approximately HK$1.4 million for the six months ended 30 June 2016. The turnaround for the six months ended 30 June 2017 was mainly attributable to the profit contribution of the Photovoltaic Power Generation Business and improvement of profitability of the Lighting Products Business.

Photovoltaic Power Generation Business

The Group's photovoltaic power generation project (the "**Photovoltaic Power Generation Project**") in Yinchuan City, Ningxia has been operated smoothly and has been bringing stable income to the Group since the commencement of operation in the second half of 2016. As confirmed by the State Grid Corporation of China, for the six months ended 30 June 2017, the Group has generated an aggregate of 309.1 million kilowatt-hour power and the Photovoltaic Power Generation Business has continued to contribute a significant portion to the Group's revenue, accounting for approximately 57% of the Group's revenue for the period. With a full year's operation since mid-2016, the Photovoltaic Power Generation Business has become the key growth driver of the Group's profit, contributing approximately 95% of the Group's total segment profit for the six months ended 30 June 2017.

The segment profit margin of the Photovoltaic Power Generation Business is approximately 84.8%. As the Group did not generate any revenue from the Photovoltaic Power Generation Business for the six months ended 30 June 2016, no comparative figures for the corresponding period are available.

Lighting Products Business

North America is the principal market of the Group's lighting products and due to the keen competition in such market, the revenue of Lighting Products Business for the six months ended 30 June 2017 dropped 7% to approximately HK$191.3 million (2016: HK$206.7 million). Nevertheless, for the six months ended 30 June 2017, with the Group's increased efforts in cost control and improvement of operating efficiency, segment profit margin of the Lighting Products Business improved to 6.1% (2016: 3.4%) and the segment profit increased to approximately HK$11.6 million (2016: HK$7.0 million).

Outlook and Prospects

Photovoltaic Power Generation Business

Towards the end of 2016, NDRC and NEA set ambitious targets for China's photovoltaic industry in the 13th Five-Year Plan, showing great determination to develop clean energy. In addition to the implementation of various measures to resolve curtailment problems, the PRC government issued series of favourable tax policies for photovoltaic power generation, including 50% value added tax exemption and 100% enterprise income tax exemption in the first three years since the commencement of operation of the power plants and 50% exemption in the following three years.

In accordance with the implementation of national poverty alleviation strategies, NDRC and NEA jointly announced the Opinions on the Implementation of Solar Energy for Poverty Alleviation Programme (the "**Opinion**") in 2016, which stated that solar energy was suitable for deploying in household, village and larger scale centralised power plants, considering it is clean, environmental friendly, technologically mature and able to generate stable revenue. Ningxia is one of the core districts for the implementation of photovoltaic poverty alleviation policies as set out in the Opinion.

In addition, local governments of provinces in Northwest China region, which has the most photovoltaic installed capacity in China, have regarded photovoltaic industry as one of the strategic industries for their local economies and are willing to provide favourable business conditions for photovoltaic power generation operators. It is expected that China's photovoltaic industry will continue its sustained and steady growth during the second half of 2017, in view of the favourable national and provincial policies and increasingly improved technologies.

Looking forward to the second half of 2017, premised on the success of its Photovoltaic Power Generation Project, the Group intends to focus on and further direct resources for the further expansion of its Photovoltaic Power Generation Business in accordance with national and provincial policies. The Group will continue to look for opportunities to strengthen its capabilities and diversify its operation model in this segment, including but not limited to participation in the poverty alleviation program, photovoltaic agriculture project and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Directors are positive and full of confidence for the Group's Photovoltaic Power Generation Business in the second half of 2017.

Lighting Products Business

The Group expects fierce competition will continue in its principal markets for the next half of 2017. The Group will use its best endeavor to implement stringent cost control measures so as to improve profitability of its Lighting Products Business. With a view to achieve better return to the shareholders, the Group will regularly review its Lighting Products Business's operating and financial conditions to develop a business strategy that is more responsive to market development and environmental change.

Financial Review

Segment Information

The Group reported its financial information by two segments: (i) photovoltaic power generation in the PRC and (ii) sale of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the six months ended 30 June 2016 and 2017.

	For the six months ended 30 June							
	2017				2016			
	Revenue	**% of Revenue**	**Segment Profit**	**Segment Profit Margin**	Revenue	% of Revenue	Segment Profit (Loss)	Segment Profit Margin
	HK$'000		***HK$'000***	***(%)***	*HK$'000*		*HK$'000*	*(%)*
Photovoltaic power generation	**252,828**	**57**	**214,303**	**84.8**	–	–	(280)	N/A
Sales of lighting products	**191,323**	**43**	**11,592**	**6.1**	206,703	100	7,042	3.4
Total	**444,151**	**100**	**225,895**	**50.9**	206,703	100	6,762	3.3

Revenue

During the six months ended 30 June 2017, revenue of the Group was derived from photovoltaic power generation and sale of lighting products amounting to approximately HK$444.2 million, representing an increase of approximately 115% from approximately HK$206.7 million for the six months ended 30 June 2016. The significant increase in revenue was mainly attributable to the revenue contribution from the Photovoltaic Power Generation Business.

Gross profit and gross profit margin

During the six months ended 30 June 2017, the gross profit of the Group increased by approximately 589% from approximately HK$34.7 million for the corresponding period in 2016 to approximately HK$239.2 million. The gross profit margin of the Group improved from approximately 16.8% for the six months ended 30 June 2016 to approximately 53.9% for the corresponding period in 2017. The significant increase in both gross profit and gross profit margin of the Group for the period was attributable to the contribution of the Photovoltaic Power Generation Business while the gross profit margin of which was higher compared with the Lighting Product Business.

Operating costs

During the six months ended 30 June 2017, the total operating cost increased to approximately HK$43.4 million, representing an increase of approximately 27% from approximately HK$34.2 million for the corresponding period in 2016. The increase in operating cost was primarily due to operating expenses in developing the Photovoltaic Power Generation Business.

Finance Costs

The Group recorded finance costs amounting to approximately HK$4.6 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil). The Group incurred such finance costs during the period mainly due to the interest expenses on bank borrowings, the proceeds of which were primarily used to support the development of the Photovoltaic Power Generation Business and general working capital needs for the Group's corporate office.

Profit attributable to owners of the Company

Profit attributable to owners of the Company of approximately HK$202.9 million was recorded for the six months ended 30 June 2017, as compared with a loss of approximately HK$1.4 million attributable to owners of the Company for the corresponding period in 2016. Earnings per share was 35.75 HK cents for the six months ended 30 June 2017, as compared with loss per share of 0.28 HK cents for the corresponding period in 2016.

Liquidity and financial resources

As at 30 June 2017, cash and cash equivalents of the Group were approximately HK$177.3 million, representing a decrease of 44% from approximately HK$316.3 million as at 31 December 2016. This was mainly due to cash outflow for development of Photovoltaic Power Generation Business and the general working capital needs for the Group's corporate office.

For the six months ended 30 June 2017, the Group's primary source of funding included cash generated from its operating activities and bank borrowings.

As at 30 June 2017, the Group had total bank borrowings of HK$269.5 million (31 December 2016: HK$250.0 million). The Group's current ratio (current asset divided by current liabilities) was 2.4 times as at 30 June 2017, which was improved from 2.2 times as at 31 December 2016. Considering the Group's current level of cash and bank balances and expected improvement in cash inflow from operation, the Board is confident that the Group will have sufficient resources to meet its financial needs for its current operations. Since photovoltaic projects require substantial capital investments for developing and constructing photovoltaic power plants at its initial stage, the Group may require new funding in case of pursuing new business opportunities.

Interim Dividend

The Board has resolved not to recommend any interim dividend for the six months ended 30 June 2017 (2016: Nil).

Capital structure

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of (i) net debt, which includes the bank borrowing, (ii) net cash and cash equivalents, and (iii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 30 June 2017, net gearing ratio was 10.2% (31 December 2016: net cash). This ratio is based on bank borrowings less cash and cash equivalents and pledged bank deposit dividend by total equity.

As at 30 June 2017, the interest-bearing bank borrowings of the Group, which are all repayable within one year was approximately HK$269.5 million (31 December 2016: HK$250.0 million). All of the interest-bearing bank borrowings of the Group as at 30 June 2017 are denominated in HK$ and among which HK$250.0 million carries interest at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.95% per annum ("**Loan A**") (31 December 2016: HIBOR plus 3% per annum) and HK$19.5 million carries interest at HIBOR plus 1.7% per annum ("**Loan B**"). As at 30 June 2017 and 31 December 2016, Loan A is secured by a pledge of 252,600,000 shares of the Company held by Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao, the Chairman and executive Director of the Company. Loan B was raised during the six months ended 30 June 2017 which is secured by a bank deposit of RMB20,000,000 (equivalent to HK$22,989,000) as at 30 June 2017.

As at 30 June 2017, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

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

Group's emolument policy

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

As at 30 June 2017, the Group has a total of nine (31 December 2016: nine) Directors and employed 196 (31 December 2016: 189) employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$22.7 million for the six months ended 30 June 2017 (2016: HK$19.3 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group also provided discretionary bonus, medical insurance and provident fund to employees. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company for rewarding them for their contributions to the Group and providing incentives to them to optimise their future contributions to the Group. Up to the date of this announcement, no share option has been granted under the share option scheme.

Contingent Liabilities

As at 30 June 2017 and 31 December 2016, the Group did not have any contingent liabilities.

Significant Investments

The Company has completed the development of the Photovoltaic Power Generation Project. Save as disclosed in this announcement, the Group did not have any other significant investments as at 30 June 2017.

Future Plans for Material Investments or Capital Assets

In view of the positive development of the Photovoltaic Power Generation Business of the Group, the Group may from time to time consider taking appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 30 June 2017. In the event that the Group is engaged in any plan for material investments or capital assets, the Company will publish announcement(s) and comply with the relevant Listing Rules as and when appropriate.

Material Acquisitions or Disposals

During the six months ended 30 June 2017, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

Charges on Assets

As at 30 June 2017, the Group has general banking facilities of HK$5,000,000 (31 December 2016: HK$5,000,000) which is secured by the Group's land and building with carrying amount of approximately HK$802,000 (31 December 2016: HK$844,000) and Loan B is secured by a bank deposit of RMB20,000,000 (equivalent to HK$22,989,000).

Foreign Exchange Exposure

During the period under review, a significant portion of the revenue of the Group was denominated in Renminbi while the Group has transactions denominated in US dollars and bank loans drawn in HK dollars, and accordingly the Group was exposed to foreign exchange risk.

Save as disclosed herein, the amounts of other foreign currencies involved in the Group's operation for the six months ended 30 June 2017 were insignificant. Our Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the six months ended 30 June 2017. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

Capital Commitment

As at 30 June 2017, the Group's capital commitment amounted to approximately HK$53.4 million (31 December 2016: HK$58.8 million) in respect of property, plant and equipment contracted but not provided for.

CORPORATE GOVERNANCE REPORT

The Company endeavors to maintain high standard of corporate governance for the enhancement of shareholders' value and provide transparency, accountability and independence. The Company has complied with the required code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2017, except for the following deviation:

Pursuant to the code C.2.5 of the Code, an issuer should have an internal audit function. The Company did not have an internal audit function for the six months ended 30 June 2017. The Board has reviewed the need to set up an internal audit function based on the size and complexity of the operations of the Group. In August 2017, an independent internal audit consultant was engaged to conduct analysis and review on the internal control function of a principal operating subsidiary and the consultant shall provide recommendations to the Board for the year ending 31 December 2017.

Compliance with the Model Code for Securities Transactions

During the six months ended 30 June 2017, the Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon specific enquiry, each Director confirmed that during his tenure in the six months ended 30 June 2017, he had fully complied with the required standard of dealings and there was no event of non-compliance.

Purchase, Redemption or Sale of Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference which have been updated from time to time in compliance with the code provisions set out in the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. As at 30 June 2017, the Audit Committee comprises three independent non-executive Directors, namely Dr. Tyen Kan Hee, Anthony (chairman of the Audit Committee), Mr. Xia Zuoquan and Mr. Guo Xuewen.

The unaudited condensed financial statements of the Company for the six months ended 30 June 2017 have been reviewed by the Audit Committee. Deloitte Touche Tohmatsu, the Group's auditor, has carried out a review of the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017, which is prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Results Announcement and Interim Report for the six months ended 30 June 2017

This announcement for interim results for the six months ended 30 June 2017 is published on the websites of the Company (www.baofengintl.com) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2017 will be despatched to shareholders and published on the above websites in due course.

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

Hong Kong, 18 August 2017

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