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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 (the "Year") together with the comparative figures for the corresponding year in 2009.

BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	**2010** *RMB'000*	**2009** *RMB'000*
REVENUE	5	833,268	588,552
Cost of sales		(558,079)	(423,179)
Gross profit		275,189	165,373
Other income and gains, net	5	1,128	3,044
Selling and distribution costs		(65,449)	(26,927)
General and administrative expenses		(34,104)	(22,464)
Other operating expenses		(17,377)	(239)
Profit from operations		159,387	118,787
Finance costs, net	6	5,504	(14,493)
PROFIT BEFORE TAX	7	164,891	104,294
Income tax expense	8	(50,740)	(34,189)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		114,151	70,105
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
- Basic (RMB)		0.15	0.09
- Diluted (RMB)		0.14	0.09

Details of the dividend are disclosed in note 9 to the results announcement.

BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	114,151	70,105

BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2010

	Notes	**2010** *RMB'000*	**2009** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		49,336	49,874
Prepaid land lease payments		32,406	5,718
Deposits paid		—	28,260
Prepaid rent		1,239	3,718
Total non-current assets		82,981	87,570
CURRENT ASSETS			
Inventories		50,942	55,623
Trade receivables	11	80,839	97,241
Prepayments, deposits and other receivables		12,631	4,557
Value added tax recoverable		5,532	6,837
Cash and bank balances		327,881	178,504
Total current assets		477,825	342,762
CURRENT LIABILITIES			
Trade payables	12	42,924	45,227
Deposits received, other payables and accruals		35,627	11,894
Interest-bearing bank borrowings		39,625	54,500
Exchangeable note		58,485	80,348
Derivative component of exchangeable note		—	—
Amount due to a director		—	679
Amount due to a related company		—	170
Dividend payable	9	60,900	—
Tax payable		16,711	10,412
Total current liabilities		254,272	203,230
NET CURRENT ASSETS		223,553	139,532
TOTAL ASSETS LESS CURRENT LIABILITIES		306,534	227,102
NON-CURRENT LIABILITY			
Deferred tax liabilities		—	3,500
Net assets		306,534	223,602

	Notes	2010	2009
		RMB'000	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital		7	7
Reserves		306,527	223,595
Total equity		306,534	223,602

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Baofeng Modern International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's registered office is located at the office of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1 -1111, Cayman Islands. The Company's principal place of business is located in Huoju Industrial Zone, Quanzhou, Fujian Province, the People's Republic of China ("PRC"). 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 "Listing Date").

The Company was formerly known as BAOF International Limited and changed its name to Baofeng Modern International Holdings Company Limited on 22 May 2010.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative component of exchangeable note which is measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated

3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures —Transfers of Financial Assets*
IFRS 9	*Financial Instruments*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation —Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard and interpretation.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers these new and revised IFRSs are unlikely to have a significant impact to the Group's results of operations and financial position.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

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

(c) the Baofeng branded products segment manufactures and trades Baofeng branded slippers ("Baofeng products").

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

The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, other unallocated income and gains, finance costs, net, as well as corporate and unallocated expenses are excluded from such measurement. Segment assets exclude property, plant and equipment, prepaid land lease payments, deposits paid, prepaid rent, raw materials, work in progress, prepayments, deposits and other receivables, value added tax recoverable and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude trade payables, other payables and accruals, interest-bearing bank borrowings, exchangeable note (including derivative component), amounts due to a director and a related company, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2010	OEM	Boree products	Baofeng products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales to external customers	519,154	226,971	87,143	833,268
Segment results	136,042	46,342	27,356	209,740
Reconciliation:				
Interest income				944
Other unallocated income and gains				184
Corporate and other unallocated expenses				(51,481)
Finance income, net				5,504
Profit before tax				164,891
Segment assets	75,101	30,844	10,223	116,168
Reconciliation:				
Corporate and other unallocated assets				444,638
Total assets				560,806
Segment liabilities	—	1,200	1,200	2,400
Reconciliation:				
Corporate and other unallocated liabilities				251,872
Total liabilities				254,272

Year ended 31 December 2009	OEM	Boree products	Baofeng products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales to external customers	467,908	85,860	34,784	588,552
Segment results	108,662	20,744	9,176	138,582
Reconciliation:				
Interest income				480
Other unallocated income and gains				2,428
Corporate and other unallocated expenses				(22,703)
Finance costs, net				(14,493)
Profit before tax				104,294
Segment assets	106,930	19,876	10,012	136,818
Reconciliation:				
Corporate and other unallocated assets				293,514
Total assets				430,332
Segment liabilities	110	700	750	1,560
Reconciliation:				
Corporate and other unallocated liabilities				205,170
Total liabilities				206,730

Geographical information

(a) **Revenue from external customers**

	2010	**2009**
	RMB'000	*RMB'000*
PRC (principal place of operations)	686,270	436,933
United States of America	118,033	130,950
South America	8,861	2,577
South East Asia	7,327	5,374
Europe	3,652	3,990
Other countries	9,125	8,728
	833,268	588,552

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

(b) **Non-current assets**

	2010	**2009**
	RMB'000	*RMB'000*
PRC (principal place of operations)	82,981	87,570

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

Information about major customers

For the reporting period ended 31 December 2010, none of the customers of the Group had individually accounted for over 10% of the Group's total revenue. For the reporting period ended 31 December 2009, revenue from two of the Group's OEM customers amounting to RMB81,502,000 and RMB59,335,000 had individually accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

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 income and gains is as follows:

	2010 *RMB'000*	2009 *RMB'000*
Revenue		
Manufacture and sale of goods	833,268	588,552
Other income and gains, net		
Interest income	944	480
Rental income	188	255
Subsidy income *	712	2,081
Exchange loss, net	(684)	(28)
Others	(32)	256
	1,128	3,044

* There are no unfulfilled conditions or contingencies relating to these subsidies.

6. FINANCE COSTS, NET

	Group 2010 *RMB'000*	 2009 *RMB'000*
Interest on bank loans repayable within five years	(2,927)	(1,913)
Interest expenses on exchangeable note	(11,911)	(12,580)
Waiver of maturity yield payment of exchangeable note	20,342	—
	5,504	(14,493)

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2010 *RMB'000*	2009 *RMB'000*
Cost of inventories sold*	558,079	423,179
Depreciation*	5,615	6,362
Amortisation of prepaid land lease payments	140	127
Amortisation of prepaid rent*	4,958	2,479
Minimum lease payments under operating leases in respect of land and buildings*	5,016	1,050
Employee benefit expenses* (including directors' remuneration):		
Wages and salaries	77,669	65,871
Staff welfare	3,623	3,522
Pension scheme contributions**	7,425	3,368
	88,717	72,761
Auditors' remuneration	1,846	940
Loss on disposal of items of property, plant and equipment	5	11
Research and development costs ***	2,176	1,581

* The cost of inventories sold for the reporting period ended 31 December 2010 includes approximately RMB71,548,000 (2009: RMB66,458,000) relating to direct staff costs, depreciation of manufacturing facilities, amortisation of prepaid rent 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.

** At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

*** The research and development costs for the reporting period are included in "General and administrative expenses" on the face of the consolidated income statement.

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the reporting period (2009: Nil). Taxes on profits assessable in the Mainland China have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2010	**2009**
	RMB'000	*RMB'000*
Current — Mainland China		
Charge for the year	50,133	29,958
Underprovision in prior years	607	731
Deferred	—	3,500
Total tax charge for the year	50,740	34,189

9. DIVIDENDS

Interim dividend of HK$694 per ordinary share, amounting to HK$70,000,000 (equivalent to RMB60,900,000) (2009: Nil), was declared by the board of directors of the Company to shareholders on the register of members on 11 September 2010. The dividend payable will be paid to the shareholders of the Company upon receipt of a dividend receivable from a subsidiary of the Company.

The directors do not recommend a final dividend in respect of the reporting period ended 31 December 2010 (2009: Nil)

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to owners of the Company, and on the assumption that 750,000,000 (2009: 750,000,000) ordinary shares have been in issue throughout the years, comprising of 100,000 issued ordinary shares of the Company brought forward from prior year, 2,719 issued ordinary shares of the Company pursuant to the loan capitalisations and the capitalisation issue of 749,897,281 ordinary shares of the Company.

The calculation of diluted earnings per share amounts is based on the consolidated profit for the year attributable to owners of the Company, adjusted to reflect the interest on the exchangeable note and waiver of maturity yield payment of exchangeable note, where applicable (see below). The number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the impact of the exchangeable notes outstanding had an anit-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	114,151	70,105
Interest on exchangeable note	11,911	12,580
Less: Waiver of maturity yield payment of exchangeable note	(20,342)	—
Consolidated profit attributable to owners of the Company before interest on exchangeable note and wavier of maturity yield payment of exchangeable note	105,720	82,685

11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months to its customers. 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. Trade receivables are non-interest bearing.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	80,839	89,988
3 to 6 months	—	7,253
	80,839	97,241

12. TRADE PAYABLES

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	42,924	45,227

The trade payables are non-interest bearing and are normally settled on two to three months terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The Group is a leading supplier of slippers (including own-branded slippers) in the PRC.

The PRC slipper market has been growing steadily in recent years, which is partly driven by the growth in the PRC economy. The fashionable slipper market in the PRC is still in its early growth stage. The industry is benefiting from the growth in urbanization level, disposable income of urban households and retail sales in the PRC.

According to Frost & Sullivan, an independent global consulting company based in the United States with nearly 50 years of industry experience, the PRC's urban per capita disposable income grew rapidly and steadily at a compound annual growth rate ("CAGR") of 13.1% from 2005 to 2009. It is expected that the number will grow at a CAGR of approximately 11.1% from 2010 to 2014.

The increase in per capita disposable income will lead to a strong growth in retail sales of consumer goods in the PRC. Total retail sales of consumer goods is expected to grow at a CAGR of 13.4% in the PRC from 2010 to 2014, and the retail sales value will likely exceed RMB26,071 billion in 2014. (Source: Frost & Sullivan).

The boost in domestic consumption is further strengthened after China's National People's Congress has approved the 12th Five-Year Plan. Raising domestic consumption and increasing urbanization are two of the key targets for the plan. Such policies will continue to stimulate the growth of retail sector in the consumer market which creates genuine growth opportunities for the mass-market domestic brands.

The PRC fashionable slipper market is one of the markets that the Group focuses on. In comparison with the traditional slippers, fashionable slippers typically to feature with stylish and colorful designs and are usually worn in public or outdoor. In general, fashionable slippers have higher selling prices than the traditional slippers. According to Frost & Sullivan, revenue from sales of fashionable slippers in the PRC grew at a CAGR of 14.5% from approximately RMB3,600 million in 2007 to over RMB4,700 million in 2009. With the increasing purchasing power of PRC consumers, the growth in revenue from sales of fashionable slippers in the PRC is expected to remain high at a CAGR of approximately 18.2% from 2009 to 2014.

Business Review

The Group is a leading supplier of slippers in the PRC. We are primarily engaged in the manufacture of slippers for our OEM customers and in the design and manufacture of slippers under our Boree and Baofeng brands. As of June 2010, the Group ranked top among domestic brands and slipper suppliers with fashion designs in terms of domestic sales revenue derived from branded products (source: Frost & Sullivan).

Leveraging on the growing domestic consumption in China, the Company has entered into a period of rapid developments and growth through the brand enhancement and network expansion during the Year. As the branded slipper market is expected to post great potential growth, the Company has shifted its focus to produce slippers with fashionable designs in recent years. Such business strategy implemented by the Group has been successful as evidenced by encouraging results in consecutive years.

Branded Business

The business of our branded products was the key growth driver of the Group for the year under review. The business has continued to develop rapidly and achieved a robust growth in the Year. As the gross profit margin for branded products is higher than those of the OEM products, the Company is determined to focus on enhancing the development of the Boree and Baofeng brand.

Boree

Our Boree brand principally offers slippers with fashionable designs targeting at women between 18 to 40 years of age, and aiming to reach the medium-to-high end market. Our products are divided into spring/summer collections and autumn/winter collections to meet different customer needs and cater for different weather conditions. In addition, theme-oriented collections within our Boree brand are also created to add variety to our product offerings. We also offer a small portion of bags under the Boree brand that was sold during the the year under review. For the year of 2010, our Boree brand recorded strong growth as our revenue increased from RMB85.9 million in 2009 to RMB227.0 million in 2010. We will continue to employ our effective marketing strategies in order to anchor our brand's leading position in the fashionable slipper market in China.

Baofeng

The Baofeng brand offers traditional slippers with various designs and styles that cater for budget-to-medium market. In addition, we have launched different series of

Baofeng brand slippers with catchy names, including Bubble slippers, Cartoon slippers, Tall slippers and Grassy slippers. The sales of Baofeng brand products have recorded an outstanding result as we recorded 150.5% growth to RMB87.1 million for the Year.

OEM Business

We have been manufacturing slippers and footwear on an OEM basis for a broad customer base. The quality of our OEM products is widely recognised by our business partners around the globe. The OEM business customers included chain store giants and enterprises selected in the Fortune Global 500 List. The Group recorded steady sales growth from OEM business in 2010. Sales increased by 11.0 % to RMB519.2 million for the year under review. Our strong customer relationship allows us to continue to keep abreast of the latest fashion trends and acquire the knowledge needed to design products.

In 2010, we were selected to be a manufacturer for slippers and footwear products of the 2010 Shanghai World Expo. As a licensed manufacturer, we are authorised to design and manufacture licensed slippers bearing the trademark of the 2010 Shanghai World Expo. We received an award in recognition of the quality of our 2010 Shanghai World Expo Products issued by the Bureau of Shanghai World Expo Coordination in November 2010. The Group's corporate image has been further enhanced following the national and global coverage in the 2010 Shanghai World Expo.

Distribution Network

All the sales points of Boree and Baofeng brand products are operated by our distributors. The Company has established an extensive nationwide distribution network for the branded products during the year under review. As of 31 December 2010, the number of sales points of Boree products has significantly increased from 147 to over 520 as compared to 31 December 2009. Most of the sales points are located in specialty stores, concessionary counters, department stores and shopping malls. Leveraging on the management and its established relationships with the distributors to oversee the operation of respective sales point, the Group is able to focus and allocate more resources for the promotional campaigns in the branded businesses.

Production Capability

During the year of 2010, the Company has focused on resources and development for the enhancement in production capacity, and as a result we have produced approximately 38 million pairs of slippers. The production facilities are strategically located in a Quanzhou, a hub city of the PRC footwear industry; and the raw material providers are in close proximity to keep delivery time at a minimum. As such, the Group is able to keep a low level of raw material inventory throughout the Year as the purchases were made in a timely, accurate and efficient manner.

As the management of the Group anticipates that sales of fashionable slippers will grow rapidly in the next few years as a result of the PRC's rapidly growing economy, accelerating urbanization and increasing disposable income, the current production capacity of the Group may not be able to meet the demand in the slipper market. The Company is planning to execute a new construction project to increase the total production capacity in the upcoming years in order to meet growing demands and capitalize the rapid business growth.

Design Capability

In April 2010, the Group entered into a co-operative agreement with an external research centre in Dongguan. The research centre will provide no less than 1,000 slipper designs per year. Together with the external design house in Italy that the Group has already engaged, we are able to gain access with first-hand knowledge of the latest global fashion trends.

In 2010, the Group held a slipper design competition "BaoF Cup No.2 — Fashion Your Step". The corporate image of the Company was strengthened as the winning designs were presented and announced with extensive media coverage. The Group is committed to continuously offer quality and popular designs slippers with international standards.

Comprehensive and Established Information Systems

During the year under review, the Group has upgraded its Enterprise Resource Planning System ("ERP System") to link up the procurement, production, inventory, sales and financing systems. The Distribution Resource Planning system ("DRP System") was also enhanced by the Group in order to achieve a more effective and efficient planning of production levels.

These upgraded systems are able to monitor and track the inventory of distributors and sales points in a real-time environment. As of 31 December 2010, the DRP System was installed at 116 Boree Sales Points across our distribution network.

The upgraded ERP System together with the DRP System will continue to facilitate the integration and exchange of information among the Boree Sales Points, distributors and the headquarter of the Group.

Marketing Campaign

During the year under review, the Group has adopted effective marketing strategies to strengthen its leading position and enhance brand recognition in the PRC and Asia.

Firstly, we have engaged celebrities to promote our branded products. We engaged a well-known and popular actress Ms. Li Xiao-lu, Jacqueline as the image and brand spokesperson for Boree. Ms. Li was awarded the Golden Horse Best Actress Award and Deauville Asian Film Festival Best Actress Award. We also invited celebrities to attend our promotional event in Hong Kong during Christmas. We believe that this celebrity endorsement strategy will further enhance our brands awareness.

Secondly, we have launched TV commercials during airtime on the China Central Television channel. The management of the Company believed that the launching of TV commercials is an effective way to increase the brand recognition and maximize our brand exposure over a short period of time.

Thirdly, we have advertised our Boree and Baofeng brands in fashion magazines, both in print and online, across the country in order to maintain a consistently high-profile market presence.

Fourthly, the Group entered into an agreement with the agent of Beijing Rayli Magazine House to jointly organize various promotional activities such as the "Selection of Baoren Rui Lady — I want to be beautiful". The winners were selected as our models to take part in Boree's marketing campaigns. Similar promotional activities will be held in the coming years.

In addition, the Group held a slipper design competition, "BaoF Cup No.2 — Fashion Your Step". The corporate image of the Company was strengthened as winning designs were presented and announced with extensive media coverage.

During Christmas in 2010, we have hired a promotional van to travel around Hong Kong to increase the exposure of Boree and Baofeng brands. The event received an overwhelming response and created a joyful ambience. We will continue to promote our brands in Hong Kong in the coming years.

Financial Review

Revenue by Product Category

	2010	**2009**	**Increase/ (decrease)**
	RMB'000	*RMB'000*	*% Change*
Revenue (Total)	833,268	588,552	41.6%
Revenue (Boree Products)	226,971	85,860	164.4%
Revenue (Baofeng Products)	87,143	34,784	150.5%
Revenue (OEM business)	519,154	467,908	11.0%

For the Year, the revenue of the Group increased by 41.6% to RMB833.3 million and the gross profit margin rose from 28.1% to 33.0%.

Revenue from Boree and Baofeng branded boosted by 164.4% to RMB227.0 million and 150.5% to RMB87.1 million respectively in 2010, mainly due to the successful implementation of our effective marketing strategies and rapid expansion of the Group's distribution networks. In addition, the increase in sales was also attributable to the growing market demand for fashion-focused slipper products in China and overseas.

In fiscal of 2010, the business growth from OEM business remains sustainable and the revenue from OEM business increased by 11.0% to RMB519.2 million.

The Group will continue to focus on the development of Boree and Baofeng brand and strengthen our brand's leading position in the fashionable slipper market in China.

Selling and distribution costs

Selling and distributions costs increased by 143.1% to RMB65.4 million during the year (2009: RMB26.9 million), primarily due to our aggressive advertising and marketing expenses.

General and administrative expenses

General and administrative expenses increased by 51.6% to RMB34.1 million in 2010 (2009: RMB22.5 million), due to the increase in listing expenses for the listing of the Company in early 2011.

Provision for Inventories

As of 31 December 2010, the Group did not record any provision for inventories. This implies that the Group's inventory management system is effective.

Provisions for Doubtful Debts

As of 31 December 2010, the Group did not make any provision for doubtful debts. The figures prove that our credit policies implemented against our customers are effective and efficient.

Working capital Management

	2010	**2009**	**Percentage change**
Average trade receivables turnover days	39.0	55.8	-30.1%
Average trade payables turnover days	28.8	47.7	-39.6%
Average inventory turnover days	34.8	39.8	-12.6%

All the figures of average trade receivables turnover days, average trade payables turnover days and average inventory turnover days in 2010 show a satisfactory improvement. The Group continued to implement an effective working capital management for the year under review.

Liquidity and Financial Resources

During the year of 2010, net cash inflow from operating activities of the Group amounted to RMB176.9 million (2009: RMB31.6 million).

As of 31 December 2010, cash and bank balances was in a sum of RMB327.9 million, representing a net increase of RMB149.4 million as compared to the position as of 31 December 2009.

Pledged of Assets

As of 31 December 2010, the Group secured its bank borrowings by the pledge of the Group's trade receivables amounting to RMB33.9 million.

The exchangeable note was secured by the following:

(i) pledge of all of the ordinary share of the Company and its subsidiary, Baof International Limited ("BAOF HK"), and the 100% equity interest in Quanzhou Baofeng Shoes Co Limited ("Quanzhou Baofeng") to CITIC Capital China Mezzamine Fund Limited ("CITIC Capital");

(ii) pledge by a fixed and floating charge over all of the assets of the Company and BAOF HK to CITIC Capital;

(iii) pledge of all the Company's amounts due from BAOF HK to CITIC Capital from time to time; and

(iv) pledge of all the BAOF HK's amounts due from Quanzhou Baofeng to CITIC Capital from time to time.

The above securities will be released and discharged upon the exchange of the new exchangeable note in full pursuant to the conditional release and discharge agreements entered between the Company and its shareholders, BAOF HK and CITIC Capital on 17 January 2011. On 17 January 2011, CITIC Capital delivered an exchange notice to exercise the exchange right of the exchangeable note in full. The exchangeable note was fully exercised on 28 January 2011.

Capital Commitment and Contingent liabilities

As of 31 December 2010, the Group had the contracted for commitment in respect of advertising and consultancy services and research and development of RMB0.5 million and RMB2.2 million respectively. As of 31 December 2010, the Group did not have any material contingent liabilities

Profit attributable to shareholders and Net Profit Margin

For the year under review, the total consolidated comprehensive income attributable to the Company amounted to RMB114.2 million, representing an increase of 62.9% in comparison to the same period last year (2009: RMB70.1 million). Net profit margin of the Group also rose by 15.1% to 13.7% (2009: 11.9%).

Foreign Exchange Risk

During 2010, the sales of the Group were mainly denominated in US dollars and Renminbi in 2010. The cost of sales and operating expenses were mainly denominated in Renminbi.

During the Year, the Group did not hedge any exposure in foreign currency risk. However, management of the Group monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Gearing Ratio

As at 31 December 2010, the gearing ratio of the Group was 36.6%. (2009: 46.3%). Gearing ratio is total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As of 31 December 2010, the Group had a total of 2,382 employees (2009: 2,459 employees).

Future Prospects

Looking forward, the Group will continue to focus on the development of Boree and Baofeng brand. The management of the Group anticipates that the sales of fashionable slippers will grow rapidly in the years ahead as a result of the strong economic growth in China due to the acceleration urbanization and increasing disposable income. In addition to the domestic market, the Group will also explore and capitalise for market opportunities in the overseas market, particularly in Asia in 2011. We expected that our presences in Philippines and Indonesia will be established in 2011.

As stated in the prospectus of the Company dated 18 January 2011, the Group will apply the proceeds from the listing as follows:

- To increase our production capacity progressively by constructing new production facilities in two phases located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province and installing additional production lines at the existing production facilities located in Huoju Industrial Zone in Quanzhou;

- To secure our market position as a leading supplier of own-branded slippers in the PRC and increase recognition of our Boree and Baofeng brand names by increasing our marketing and advertising efforts. In this regard, the Company plans to use promotional posters, organise promotional events and place advertisements on television, newspapers and magazines;

- To acquire branded product businesses when suitable opportunities arise;

- To strengthen our design capability by (1) collaborating with an external research centre in Dongguan; (2) holding annual worldwide slipper design competitions; and (3) engaging external design houses;

- To establish flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong, as well as to establish a market presence in other countries in Asia

- To strengthen the management of our operations and our ability to monitor the performance of our distributors, by extending the coverage of our DRP system to as many Sales Points as practicable and by upgrading our information systems from time to time; and

- The rest of the proceeds will be used as general working capital and other general corporate purposes.

Since the listing of the Company on 28 January 2011 and up to the date of this announcement, the proceeds from the listing were not applied for any use.

CORPORATE GOVERNANCE

As the Company was listed on 28 January 2011 (the "Listing Date"), the Company was not required to comply with the requirements under the code provisions set out in Appendix 14 — Code on Corporate Governance Practices (the "Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or the continuing obligations requirements of a listed issuer pursuant to the Listing Rules for the Year. The Directors consider that since the Listing Date, the Company has applied the principles and complied with the applicable code provisions set out in the Code.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code from the Listing Date and up to the date of this announcement.

Purchase, redemption or sale of listed securities of the Company

The shares of the Company were first listed on the Main Board of the Stock Exchange on 28 January 2011. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after listing.

Audit committee

An audit committee was established by our board on 8 January 2011 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises three independent non-executive directors, namely Mr. LEE Keung, Professor BAI Changhong and Ms. AN Na. Mr. LEE Keung is the chairperson of the audit committee.

The audit committee has reviewed the consolidated financial statements of the Company for the Year at a meeting held after the Listing Date.

DIVIDEND

In light of the Company's business expansion, which requires cash for capital expenditures and working capital, the Directors did not recommend the payment of any final dividend for the year ended 31 December 2010. As disclosed in the prospectus of the Company dated 18 January 2011, the Directors currently intend to recommend an annual dividend of not less than 25.0% of the net consolidated profit attributable to owners of the Company for the financial years subsequent to the global offering of the Company in January 2011. Such intention does not amount to any guarantee or representation or indication that the Directors must or will declare and pay dividends in such manner or declare and pay dividends at all.

As of 31 December 2010, the amount of our declared but unpaid dividend was HK$70 million. As disclosed in the prospectus of the Company dated 18 January 2011, the payment of such declared but unpaid dividend was expected to be made on or before 31 March 2011. The Company would like to inform the shareholders of the Company that such payments are now expected to be made no later than 30 June 2011, as the relevant administrative procedures in respect of the payments require additional time. The Company confirms that the amount for such dividend payments continues to be held in escrow pending completion of the relevant administrative procedures and that the shareholders of our Company who are entitled to such dividend payment have agreed with such deferral.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is available for viewing on the website of the Stock Exchange and the website of the Company at http://www.chinabaofeng.com. The annual 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 Liuhe
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, the executive Directors are Mr. Zheng Liuhe, Mr. Zhang Aiguo, Mr. Chen Qingwei and Mr. Zheng Jingdong, the non-executive Directors are Mr. Sze Ching Bor and Mr. Cheung Miu, and the independent non-executive Directors are Professor Bai Changhong, Mr. Lee Keung and Ms. An Na.