宝峰

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 2011

FINANCIAL HIGHLIGHTS

- Revenue grew by 34.1% to RMB1,117.7 million
- Branded business revenue expanded to representing 51.0% of the total revenue
- Profit from operations increased by 48.4% to RMB236.6 million
- Profit for the year attributable to owners of the Company rose by 40.8% to RMB160.7 million
- Proposed a final dividend of HK3.0 cents per ordinary share

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 2011, together with the comparative figures for the corresponding year of 2010.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	**1,117,674**	833,268
Cost of sales		**(744,566)**	(558,079)
Gross profit		**373,108**	275,189
Other income and gains, net	4	**7,603**	1,128
Selling and distribution costs		**(81,625)**	(65,449)
General and administrative expenses		**(58,593)**	(34,104)
Other operating expenses		**(3,928)**	(17,377)
Profit from operations		**236,565**	159,387
Finance costs, net	5	**(5,948)**	5,504
PROFIT BEFORE TAX	6	**230,617**	164,891
Income tax expense	7	**(69,918)**	(50,740)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**160,699**	114,151
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
– Basic (RMB)		**0.16**	0.15
– Diluted (RMB)		**N/A**	0.14

Details of the dividends are disclosed in note 8 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**160,699**	114,151

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**89,758**	49,336
Prepaid land lease payments		**36,846**	32,406
Deposit		**250**	–
Prepaid rent		**–**	1,239
Total non-current assets		**126,854**	82,981
CURRENT ASSETS			
Inventories		**69,689**	50,942
Trade receivables	*10*	**122,705**	80,839
Prepayments, deposits and other receivables		**13,462**	12,631
Value added tax recoverable		**5,869**	5,532
Pledged deposits		**382,004**	–
Cash and bank balances		**694,816**	327,881
Total current assets		**1,288,545**	477,825
CURRENT LIABILITIES			
Trade payables	*11*	**60,488**	42,924
Deposits received, other payables and accruals		**33,610**	35,627
Interest-bearing bank borrowings	*12*	**383,910**	39,625
Exchangeable note		**–**	58,485
Dividend payable		**–**	60,900
Tax payable		**21,463**	16,711
Total current liabilities		**499,471**	254,272
NET CURRENT ASSETS		**789,074**	223,553
Net assets		**915,928**	306,534
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**66,126**	7
Reserves		**849,802**	306,527
Total equity		**915,928**	306,534

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.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Best Mark International Limited, which was incorporated in the British Virgin Islands.

2.1 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. These financial statements are presented in Renminbi ("RMB") and all values rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's 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*
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*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and the amendment to IAS 1 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to IFRSs* 2010 issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. The key amendment most applicable to the Group is IAS 1 *Presentation of Financial Statement*, which clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *Government Loans* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
IFRS 9	*Financial Instruments* [6]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of items of Other Comprehensive Income* [3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits* [4]
IAS 27 (Revised)	*Separate Financial Statements* [4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on its results of operations and financial position.

3. 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, pledged deposits 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, dividend payable and tax payable as these liabilities are managed on a group basis.

3. SEGMENT INFORMATION *(continued)*

	OEM *RMB'000*	Boree products *RMB'000*	Baofeng products *RMB'000*	Total *RMB'000*
Year ended 31 December 2011				
Segment revenue:				
Sales to external customers	548,167	402,339	167,168	1,117,674
Segment results	131,747	104,046	55,690	291,483
Reconciliation:				
Interest income				3,303
Other unallocated income and gains				4,300
Corporate and other unallocated expenses				(62,521)
Finance costs, net				(5,948)
Profit before tax				230,617
Segment assets	74,766	74,795	22,706	172,267
Reconciliation:				
Corporate and other unallocated assets				1,243,132
Total assets				1,415,399
Segment liabilities		1,200	1,200	2,400
Reconciliation:				
Corporate and other unallocated liabilities				497,071
Total liabilities				499,471

3. SEGMENT INFORMATION *(continued)*

	OEM *RMB'000*	Boree products *RMB'000*	Baofeng products *RMB'000*	Total *RMB'000*
Year ended 31 December 2010				
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

Geographical information

(a) Revenue from external customers

	2011 *RMB'000*	2010 *RMB'000*
PRC (principal place of operations)	**925,037**	686,270
United States of America	**169,036**	118,033
South America	**6,562**	8,861
South East Asia	**1,812**	7,327
Europe	**4,232**	3,652
Other countries	**10,995**	9,125
	1,117,674	833,268

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

3. SEGMENT INFORMATION *(continued)*

(b) Non-current assets

	2011	2010
	RMB'000	*RMB'000*
PRC (principal place of operations)	**126,854**	82,981

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

Information about major customers

For the years ended 31 December 2011 and 2010, none of the customers of the Group had individually accounted for over 10% of the Group's total revenue.

4. 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, net is as follows:

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**1,117,674**	833,268
Other income and gains, net		
Interest income	**3,303**	944
Rental income	**191**	188
Subsidy income*	**20**	712
Foreign exchange differences, net	**3,880**	(684)
Others	**209**	(32)
	7,603	1,128

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

5. FINANCE COSTS, NET

	Group 2011 RMB'000	2010 RMB'000
Interest on bank loans repayable within five years	**4,738**	2,927
Interest expenses on exchangeable note	**1,210**	11,911
Waiver of maturity yield payment of exchangeable note	**–**	(20,342)
	5,948	(5,504)

6. PROFIT BEFORE TAX

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

	2011 RMB'000	2010 RMB'000
Cost of inventories sold*	**744,566**	558,079
Depreciation*	**5,719**	5,615
Amortisation of prepaid land lease payments	**1,130**	140
Amortisation of prepaid rent*	**2,479**	4,958
Minimum lease payments under operating leases in respect of land and buildings*	**2,992**	5,016
Employee benefit expenses* (including directors' remuneration):		
Wages and salaries	**102,676**	77,669
Equity-settled share option expense	**2,103**	–
Staff welfare	**10,849**	3,623
Pension scheme contributions**	**9,658**	7,425
	125,286	88,717
Auditors' remuneration	**1,977**	1,846
Loss on disposal of items of property, plant and equipment	**90**	5
Foreign exchange differences, net	**(3,880)**	684
Bank interest income	**(3,303)**	(944)
Research and development costs***	**2,055**	2,176

* The cost of inventories sold for the year ended 31 December 2011 includes approximately RMB93,145,000 (2010: RMB71,548,000) 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 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

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

7. 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 year (2010: 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	
	2011	2010
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**71,711**	50,133
Under/(overprovision) in prior years	**(1,793)**	607
Total tax charge for the year	**69,918**	50,740

8. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Interim dividends declared during the year:		
2011 – HK2.0 cents (2010: HK$694) per ordinary share	**16,309**	60,900
Proposed final dividend:		
2011 – HK3.0 cents (2010: Nil)		
per ordinary share	**24,217**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the consolidated profit for the year attributable to owners of the Company and the weighted average number of ordinary shares of 979,760,877 (2010: 750,000,000) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the 102,719 ordinary shares in issue, 749,897,281 ordinary shares issued pursuant to the capitalisation issue, 250,000,000 ordinary shares issued on 28 January 2011 in connection with the listing of the Company's ordinary shares on the Stock Exchange, and 4,280,000 repurchased and cancelled shares.

The number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2010 was based on the 750,000,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the year ended 31 December 2010.

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.

The number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2010 is the number of ordinary shares as used in the basic earnings per share calculation.

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2011 in respect of a dilution as the impact of the exchangeable note outstanding during the year has an anti-dilutive effect on the basis earnings per share amounts presented.

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

	2011 ***RMB'000***	2010 *RMB'000*
Earnings		
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	**160,699**	114,151
Interest on exchangeable note	**1,210**	11,911
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	**161,909**	105,720

10. TRADE RECEIVABLES

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

An 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	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**122,225**	80,839
3 to 6 months	**480**	–
	122,705	80,839

11. 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	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**60,488**	42,924

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

12. INTEREST-BEARING BANK BORROWINGS

	Group	
	2011	2010
	RMB'000	*RMB'000*
Current		
Bank loans – unsecured	**65,000**	10,000
Bank loans – secured	**318,910**	29,625
	383,910	39,625
Analysed into:		
Bank loans repayable within one year	**383,910**	39,625

(a) The bank loans bore floating interest rates ranging from:

Year ended 31 December 2011	1.486% – 6.626% per annum
Year ended 31 December 2010	2.957% – 5.576% per annum

(b) At 31 December 2011, the secured bank loans of the Group and the Company were secured by the pledge of the Group's bank deposits of RMB382,004,000 (31 December 2010: Nil).

(c) At 31 December 2010, the secured bank loans of the Group and the Company were secured by the pledge of the Group's trade receivables amounting to RMB33,904,000. During the year ended 31 December 2011, the respective bank borrowings were fully repaid and the pledged trade receivables were released.

MANAGEMENT DISCUSSION AND ANALYSIS

Baofeng Modern Group is a leading brand owner and manufacturer of casual footwear in the PRC. It has two own casual footwear brands – "Boree" and "Baofeng", and is also a footwear manufacturer for international renowned brands. The Group was the largest slippers exporter in terms of both volume and value in 2011, and the largest fashionable slippers supplier in China in 2011 in terms of domestic sales of own-branded fashionable slippers (source: Frost & Sullivan).

Driven by the outstanding business performance of the Company's own branded products, the Group continued to maintain satisfactory growth in both its revenue and profits for the year ended 31 December 2011. The revenue from the branded business increased from RMB314.1 million for the year ended 31 December 2010 to RMB569.5 million for the year ended 31 December 2011. The own branded businesses accounted for more than half of the Group's total turnover, representing 51.0% of the total revenue for the year ended 31 December 2011 (2010: 37.7%).

BUSINESS REVIEW

Boree

The Boree brand offers fashionable sandals, slippers and casual footwear, targeting the medium-to-high end market. Revenue generated from Boree continued to be the Group's key growth driver, increased by 77.3% to RMB402.3 million for the year as compared with that of last year (2010: RMB227.0 million). The Group has a well-established nationwide distribution network that boosted the sales volume of Boree products and increased its market share during the year under review. A flagship store for Boree brand was opened in Beijing in April 2011. To facilitate the brand and the Group's image promotion in Hong Kong, a Boree branded store was opened at Tsim Sha Tsui in September 2011. The Group will continue to establish more flagship stores in other major cities in the PRC.

Baofeng

The Baofeng brand offers traditional slippers with various designs and styles that caters for budget-to-medium market. Revenue generated from Baofeng recorded remarkable growth with an increase of 91.8% from RMB87.1 million in 2010 to RMB167.2 million in 2011.

Distribution Network

During the year, the Group made continuous efforts to expand the distribution network for its own branded products, and it has established extensive presence in China. As of 31 December 2011, the number of sales points of Boree and Baofeng products has increased from 520 at the end of last year to over 900. The sales points are located at specialty stores, concessionary counters, department stores, shopping centers, supermarkets and megastores. The Group will continue to keep close contact with distributors and seek for sales points with high customer traffic so as to increase its turnover.

NBA Branded Products

The Group formed an exclusive three-year partnership with NBA China in May 2011, through which our product lines were further broadened, diversifying into the footwear market for men and children. A line of NBA branded products will be launched in various parts of China, including flipflops, slippers and sandals with features of NBA team logos and mascots, and will be distributed through the Group's distribution network in Mainland China and Hong Kong. Currently, the NBA branded slippers and sandals are available in the Boree store at Tsim Sha Tsui, Hong Kong and receive positive market response. These products also achieved remarkable results at the 2012 Spring and Summer Sales Fair held in November 2011, and the aggregate amount of orders increased by over 10% as compared to the same fair last year. In light of such warm market response to the NBA products, the Group is very confident in these new products.

Original Equipment Manufacturer ("OEM") Business

During the year under review, OEM business continued to achieve satisfactory results. Revenue generated from the OEM business increased by 5.6% on a year-on-year basis to RMB548.2 million (2010: RMB519.2 million). The Group will continue to maintain good relationship with our existing clients so as to achieve stable growth.

Optimizing Sales and Internal Management and Upgrading Production Facilities and Technology

In order to optimize internal management, the Group has been installing Enterprise Resource Planning ("ERP") System and Distribution Resource Planning ("DRP") System for more and more sales points during the year. With these systems, we can enhance control over supply chain, logistics and sales, quality and inventory monitoring in many ways so as to boost sales growth and develop distribution strategies. The Group aims to enhance production efficiency through effective allocation of internal resources and upgrading existing production facilities and technology to meet the demand of the fast developing slippers and footwear market.

As to product design, apart from the strong in-house design team, the Group also engaged an Italian design house to gain access to knowledge of the latest global fashion trends in footwear.

Marketing Campaigns

During the year, the Group has launched effective marketing campaigns to further enhance the market recognition of our own brands. While advertising in fashion magazines, both in print and online, we also cooperated with broadcasting media by sponsoring domestic TV programs, including the TV series "Go Into Business" and fashion talk-show "Crazy for Shoes", to connect our products with everyday life through embedded advertisements. Furthermore, given the great success of the first season of "Selection of Baoren Rui Lady", we held the second season of selection in 2011 to enhance the leisure and fashionable image of the Group's brands.

We also cooperated with ATV for the "2011 Miss Asia Pageant" and launched Miss Asia series luxurious footwear with Swarovski crystal elements for the show, providing several types of fashionable footwear with different styles for the Miss Asia contestants which are both modern and complementary to the elegant charm of the contestants. This series of footwear will also be available at Boree branded stores.

FINANCIAL REVIEW

Revenue by Product Category

	2011	2010	Increase/ (decrease)
	RMB'000	*RMB'000*	*% Change*
Revenue (Total)	**1,117,674**	833,268	34.1%
Revenue (Boree Products)	**402,339**	226,971	77.3%
Revenue (Baofeng Products)	**167,168**	87,143	91.8%
Revenue (OEM business)	**548,167**	519,154	5.6%

For the year under review, the revenue of the Group increased by 34.1% to RMB1,117.7 million. Revenue from Boree and Baofeng brands increased by 77.3% to RMB402.3 million and 91.8% to RMB167.2 million respectively in the year as compared with those of last year. The growth was mainly attributable to the satisfactory performance of our branded business and the rapid expansion of the Group's distribution networks. The business growth from the OEM business remained stable and the revenue from the OEM business increased by 5.6% to RMB548.2 million for the year as compared with that of last year.

Selling and distribution costs

Selling and distribution costs increased by 24.7% to RMB81.6 million during the year (2010: RMB65.4 million) as compared with that of last year, primarily due to our active advertising and marketing compaigns launched during the year.

General and administrative expenses

General and administrative expenses recorded a year-on-year increase of 71.8% to RMB58.6 million in 2011 (2010: RMB34.1 million), mainly due to the increase in staff cost and professional fees subsequent to the Group's listing, the one-off incentive bonus to staff upon listing, share option expense and the newly imposed city construction tax and education surcharges by the PRC tax bureau since December 2010, of which the Group incurred for the year ended 31 December 2011 was in a sum of RMB8.2 million.

Liquidity and financial resources

During the year of 2011, net cash inflow from operating activities of the Group amounted to RMB135.3 million (2010: RMB176.9 million). As at 31 December 2011, cash and bank balances together with pledged bank deposits were RMB1,076.8 million, representing a net increase of 228.4% as compared with RMB327.9 million as at 31 December 2010. The huge increase was mainly attributable to the net proceeds we raised in relation to our initial public offering in January 2011. The interest-bearing bank borrowings of the Group as at 31 December 2011 was in a sum of RMB383.9 million (31 December 2010: RMB39.6 million). All bank loans were repayable within one year.

Pledge of assets

As at 31 December 2011, the Group secured its bank borrowings by the pledge of the Group's bank deposits amounting to RMB382.0 million. At 31 December 2010, certain of the Group's bank borrowings were secured by the pledge of the Group's trade receivables amounting to RMB33.9 million. During the year ended 31 December 2011, the respective bank borrowings were fully repaid and the pledged trade receivables were released.

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Profit attributable to shareholders

For the year ended 31 December 2011, the total consolidated profit attributable to the owners of the Company amounted to RMB160.7 million, representing an increase of 40.8% in comparison to that of last year (2010: RMB114.2 million). As compared with the financial figures for 2010, there was a significant non-recurring item affecting the net profit of the Group for the year, namely the "finance cost/income from exchangeable note, net".

The details are set out as the following:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company	**160,699**	114,151
Adjustment for the finance cost/income from exchangeable note, net	**1,210**	(8,431)
Profit from core operations	**161,909**	105,720
Growth	**53.1%**	

Taking into account the above significant non-recurring items, the profit from the core operations for the year was in a sum of RMB161.9 million, representing an increase of 53.1% as compared with that of 2010 (2010: RMB105.7 million).

Foreign exchange risk

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

Gearing ratio

As at 31 December 2011, the gearing ratio of the Group was 34.3% (as at 31 December 2010: 36.6%). 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 2011, the Group had a total of 2,636 employees (as at 31 December 2010: 2,382 employees).

Use of net proceeds from the share offering

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 utilization of the net proceeds as at 31 December 2011 is set out as follows:

Nature	Amount raised *RMB'000*	Amount utilized *RMB'000*
To increase production capacity	135,683	50,898
Marketing and advertising expenses	96,917	45,875
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	2,059
To establish flagship shops and showrooms	19,383	307
To strengthen the distribution resource planning system	19,383	1,210
General working capital	38,767	38,767
Total:	387,666	139,116

FUTURE PROSPECTS

Looking forward, the Group will continue to focus on the development of our "Boree" and "Baofeng" branded business, and further secure our prominence in the casual footwear market in the PRC and establish our market presence in the Southeast Asian market through our five key business strategies. We will continue to 1) enhance and expand the brand awareness of our branded products with a brand image of fashionable and leisure style; 2) enrich our brand categories and increase market share through branding diversification to pursue the goal of becoming a multi-brand operator; 3) strengthen products research and development to improve product quality; 4) explore the international market of branded business and enhance the management system for domestic branded business; and 5) keep optimizing sales and internal management and upgrading production facilities and technology.

Firstly, we will increase our brand marketing and advertising efforts by designing integrated brand communications and media advertisement plan, for example, to place advertisements on national media and key areas with a focus on television and online media. The Group will strengthen our strategic collaboration with fashion media to promote the fashionable features of our own brands to the targeted customer group.

Meanwhile, the Group will continue to explore opportunities to cooperate with other international and domestic famous brands so as to enhance our brand image. In doing so, we may also enrich our brand categories and increase market share through branding diversification, so as to pursue our goal of becoming a multi-brand operator. In November 2011, the Group has formed strategic alliance with Swarovski (Guangzhou) Trading Co., Ltd., the global renowned prime crystal supplier, whereby the Group has the rights to use the logo "Swarovski elements" in our products for free for a term of two years. The Group has launched the "Miss Asia" series of footwear which bear the Swarovski crystal elements, we believe that the Swarovski elements series of products will enable the Group to further penetrate into the medium-to-high end market.

In February 2012, the Group has announced the formation of strategic alliance with NBA Asia and SpongeBob to become their partners. Besides Mainland China, Hong Kong and Macau, the Group was also authorized to use the NBA logo, names, logos and mascots of NBA teams on its products in most countries in Asia. The Group was also licensed to possess and use the right of publicity of the relevant animated cartoon characters and elements of SpongeBob (an American animated television series), such as the copy rights and trademark rights. The alliance with NBA Asia will help the Group to expand our market presence in Southeast Asia and diversity into the markets for men while the alliance with SpongeBob will help the Group to diversify into the children market, as well as to enhance the market image of the Group.

In addition, the Group has also commenced a cooperation with FashionTV, a leading international television channel dedicated to the world of fashion and lifestyle, which grants to the Group, within the territory comprising of multiple Asian countries including Mainland China, a license to manufacture and distribute "FashionTV" branded slippers, flip-flops, sandals and other casual footwear. FashionTV also committed to a promotional campaign presenting the licensed products on the FashionTV Channel, which can be viewed by over 300 million people in 192 countries across the world. This cooperation will help to enhance the reputation of the Group into the global market and further diversify our income stream.

Furthermore, in face of growing competition in foreign trade business, the Group will commence to conduct our branded business in overseas markets such as Southeast Asia to maintain and enhance our profitability in the international market. In 2012, the Group plans to initiate the operation and development plan for our own-branded and licensed brand business in the Southeast Asian markets such as Philippines, Indonesia, Malaysia and Singapore. The Group is negotiating with local distributors with rich experiences and established network, in a bid to reach agreements with these distributors as soon as possible to create a new revenue stream for the Group.

Lastly, in response to the rapid growth of the Group, we plan to carry out overall upgrade of our existing production facilities and technology. This is expected to enhance our production efficiency to cope with the fast evolving domestic business environment and continue to strengthen our production management. The Group will stick to these business strategies to create more value for our shareholders.

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.

The Company complied with the code provisions under the Code on Corporate Governance Practices (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") so far as they are applicable and a majority of the recommended best practices under the CG Code throughout the year ended 31 December 2011.

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 (the "Model Code") as the required standard for securities transactions by Directors. The Company made specific enquiry of all Directors who confirmed that they have complied with the required standards set out in the Model Code throughout the year under review.

AUDIT COMMITTEE

An audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the CG Code. 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 the 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 annual results of the Group for the year ended 31 December 2011 have been reviewed by the audit committee.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased and cancelled its 4,280,000 shares on the Stock Exchange. The Directors considered that the share repurchases are beneficial to the shareholders of the Company who retain their investments in the Company. Details of the share repurchases are set out below.

Month of repurchase	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Aggregate consideration (excluding transaction cost)
		HK$	*HK$*	*HK$'000*
September	2,798,000	1.17	1.00	3,085
October	1,482,000	1.00	0.97	1,459
Total	4,280,000			4,544

The premium of approximately HK$4,200,000 (equivalent to RMB3,457,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$345,000 (equivalent to RMB284,000) was transferred from retained profits of the Company to the capital redemption reserve.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders on the register of members on 31 May 2012. Upon approval by shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 20 June 2012.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming annual general meeting, the transfer books and the register of members of the Company will be closed from 18 May 2012 to 23 May 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to establish the right to attend and vote at the annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 17 May 2012.

For determining the entitlements to the proposed final dividend for the year ended 31 December 2011, the transfer books and the register of members of the Company will be closed from 29 May 2012 to 31 May 2012 (both days inclusive), during which period no transfer of shares will be effected. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 28 May 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 23 May 2012 (Wednesday). A notice convening the AGM will be published on the websites of the Stock Exchange and the Company and dispatched to the Shareholders on or before 23 April 2012.

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.baofengmodern.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, 29 March 2012

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.