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BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED
寶峰時尚國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1121)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS*

- Revenue grew by 20.9% to RMB1,351.5 million
- Own branded business revenue expanded 30.9% and representing 55.2% of the total revenue
- Gross profit margin rose by 1.1 percentage points to 34.5%
- Profit from core operations increased by 19.6% to RMB193.6 million**

* *As compared to the annual results of the Group for the year ended 31 December 2011*

** *Profit for the year attributable to owners of the Company excluding the effect of fair value loss on financial liabilities at fair value through profit or loss and finance cost for exchangeable note.*

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" or "Baofeng Modern") for the year ended 31 December 2012 (the "Year"), together with the comparative figures for 2011 and the relevant explanatory notes as set out below.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**1,351,544**	1,117,674
Cost of sales		**(885,501)**	(744,566)
Gross profit		**466,043**	373,108
Other income and gains, net	4	**5,182**	7,603
Selling and distribution expenses		**(116,427)**	(81,625)
General and administrative expenses		**(72,710)**	(58,593)
Other operating expenses		**(119)**	(3,928)
Fair value loss on financial liabilities at fair value through profit or loss		**(39,658)**	–
Profit from operations		**242,311**	236,565
Finance costs	5	**(4,815)**	(5,948)
PROFIT BEFORE TAX	6	**237,496**	230,617
Income tax expense	7	**(83,564)**	(69,918)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**153,932**	160,699
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
– Basic (RMB)		**0.15**	0.16
– Diluted (RMB)		**N/A**	N/A

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**153,932**	160,699

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**110,004**	89,758
Prepaid land lease payments		**36,020**	36,846
Deposit		**–**	250
Prepaid rent		**4,537**	–
Total non-current assets		**150,561**	126,854
CURRENT ASSETS			
Inventories		**74,430**	69,689
Trade receivables	*10*	**142,582**	122,705
Prepayments, deposits and other receivables		**15,793**	13,462
Value added tax recoverable		**9,065**	5,869
Pledged deposits		**70**	382,004
Cash and bank balances		**1,035,600**	694,816
Total current assets		**1,277,540**	1,288,545
CURRENT LIABILITIES			
Trade and bills payables	*11*	**87,638**	60,488
Deposits received, other payables and accruals		**59,211**	33,610
Interest-bearing bank borrowings	*12*	**40,732**	383,910
Convertible notes	*13*	**146,133**	–
Warrants	*13*	**10,337**	–
Tax payable		**24,376**	21,463
Total current liabilities		**368,427**	499,471
NET CURRENT ASSETS		**909,113**	789,074
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,059,674**	915,928
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,071**	–
Net assets		**1,056,603**	915,928
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**67,466**	66,126
Reserves		**989,137**	849,802
Total equity		**1,056,603**	915,928

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 registered office address of the Company is 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 principal activity of the Company is investment holding. The Group is involved in the manufacture and sales of sandals and slippers. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Best Mark International Limited ("Best Mark"), 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, except for the convertible notes and warrants, which are measured at fair value. 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 revised IFRSs for the first time for the current year's 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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

(c) the Brand Licensee Business segment manufactures and trades licensed slippers ("Brand Licensee Business"); and

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

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, net, fair value loss on financial liabilities at fair value through profit or loss, finance costs 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 and bills payables, other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, dividend payable and tax payable as these liabilities are managed on a group basis.

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licensee Business *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	526,858	218,596	21,658	584,432	1,351,544
Segment results	143,308	72,719	2,662	130,927	349,616
Reconciliation:					
Interest income					3,834
Other unallocated income and gains, net					1,348
Corporate and other unallocated expenses					(72,829)
Fair value loss on financial liabilities at fair value through profit or loss					(39,658)
Finance costs					(4,815)
Profit before tax					237,496
Segment assets	78,396	31,684	14,585	70,474	195,139
Reconciliation:					
Corporate and other unallocated assets					1,232,962
Total assets					1,428,101
Segment liabilities	1,150	1,150	–	–	2,300
Reconciliation:					
Corporate and other unallocated liabilities					369,198
Total liabilities					371,498

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licensee Business *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	402,339	167,168	–	548,167	1,117,674
Segment results	104,046	55,690	–	131,747	291,483
Reconciliation:					
Interest income					3,303
Other unallocated income and gains					4,300
Corporate and other unallocated expenses					(62,521)
Finance costs					(5,948)
Profit before tax					230,617
Segment assets	74,795	22,706	–	74,766	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. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012	2011
	RMB'000	*RMB'000*
PRC (principal place of operations)	**1,169,655**	925,037
United States of America	**161,039**	169,036
South America	**7,096**	6,562
Europe	**3,982**	4,232
South East Asia	**4,509**	1,812
Other countries	**5,263**	10,995
	1,351,544	1,117,674

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

(b) Non-current assets

	2012	2011
	RMB'000	*RMB'000*
PRC (principal place of operations)	**150,561**	126,854

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

Information about major customers

For the years ended 31 December 2012 and 2011, 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:

	2012	2011
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**1,351,544**	1,117,674
Other income and gains, net		
Interest income	**3,834**	3,303
Rental income	**207**	191
Subsidy income *	**1,268**	20
Foreign exchange differences, net	**(137)**	3,880
Others	**10**	209
	5,182	7,603

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

5. FINANCE COSTS

	Group	
	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans repayable within five years	**4,815**	4,738
Interest expenses on exchangeable note	**–**	1,210
	4,815	5,948

6. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold *	**885,501**	744,566
Depreciation *	**9,812**	5,719
Amortisation of prepaid land lease payments	**826**	1,130
Minimum lease payments under operating leases in respect of land and buildings *	**7,124**	5,471
Employee benefit expenses * (including directors' remuneration):		
Wages and salaries	**112,939**	102,676
Equity-settled share option expense	**5,156**	2,103
Staff welfare	**8,596**	10,849
Pension scheme contributions **	**10,510**	9,658
	137,201	125,286
Auditors' remuneration	**2,297**	1,977
Loss on disposal of items of property, plant and equipment	**101**	90
Foreign exchange differences, net	**137**	(3,880)
Bank interest income	**(3,834)**	(3,303)
Research and development costs ***	**2,674**	2,055

* *The cost of inventories sold for the year ended 31 December 2012 includes approximately RMB101,064,000 (2011: RMB93,145,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

** *At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: 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 (2011: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**78,228**	71,711
Under/(overprovision) in prior years	**2,265**	(1,793)
Deferred – Mainland China	**3,071**	–
Total tax charge for the year	**83,564**	69,918

8. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividend paid during the year:		
Final in respect of the financial year ended 31 December 2011 – HK3.0 cents (year ended 31 December 2010: Nil) per ordinary share	**24,360**	–
Interim – HK2.5 cents (2011: HK2.0 cents) per ordinary share	**20,354**	16,309
	44,714	16,309
Proposed final dividend:		
Final – Nil (2011: HK3.0 cents) per ordinary share	–	24,217

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 997,006,308 (2011: 979,760,877) 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 2012 includes the 995,720,000 ordinary shares in issue, 21,806,833 ordinary shares issued on 7 December 2012 in connection with the first repayment of the convertible notes, and 506,000 repurchased and cancelled shares.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 included 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.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2012 in respect of a dilution as the exercise price of the share options and warrants and the conversion price of the convertible notes of the Company outstanding during the year were higher than the average market price of the Company's ordinary shares for the year and accordingly, there is no dilutive effect on the basic earnings per share.

The calculation of 2011 diluted earnings per share amount was based on the consolidated profit for the year attributable to owners of the Company, adjusted to reflect the interest on the exchangeable note, where applicable (see below). The number of ordinary shares used in the calculation was 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 amount presented for the year ended 31 December 2011 in respect of a dilution as the exchangeable note outstanding during the year ended 31 December 2011 had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of 2011 diluted earnings per share was based on:

	2011 *RMB'000*
Earnings	
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	160,699
Interest on exchangeable note	1,210
Consolidated profit attributable to owners of the Company before interest on exchangeable note	161,909

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	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**142,582**	122,225
3 to 6 months	**–**	480
	142,582	122,705

As at 31 December 2012, the Group pledged trade receivables of approximately RMB6,387,000 (2011: Nil) to secure the bank borrowings granted to the Group (note 12).

11. TRADE AND BILLS PAYABLES

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**87,406**	60,488
Over 3 months	**232**	–
	87,638	60,488

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms (2011: two to three months). The bills payable of RMB232,000 (2011: Nil) were secured by the pledge of the Group's time deposits amounting to RMB70,000 as at 31 December 2012 (2011: Nil).

12. INTEREST-BEARING BANK BORROWINGS

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current		
Bank loans – unsecured	**35,000**	65,000
Bank loans – secured	**5,732**	318,910
	40,732	383,910
Analysed into:		
Bank loans repayable within one year	**40,732**	383,910

(a) The bank loans were denominated in RMB and USD and bore fixed interest rates (2011: floating interest rates) ranging from:

Year ended 31 December 2012	1.430% – 7.890% per annum
Year ended 31 December 2011	1.486% – 6.626% per annum

(b) At 31 December 2012, the secured bank loans of the Group were secured by the pledge of the Group's trade receivables amounting to approximately RMB6,387,000 (2011: Nil).

(c) At 31 December 2011, the secured bank loans of the Group were secured by the pledge of the Group's bank deposits of RMB382,004,000. During the year ended 31 December 2012, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

13. CONVERTIBLE NOTES AND WARRANTS

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

At the same time, Best Mark International Limited (the "Stock Lender"), a substantial shareholder of the Company, entered into a stock borrowing agreement (the "Stock Borrowing Agreement") with the Subscriber, pursuant to which the Stock Lender lent the Subscriber 32,000,000 ordinary shares of the Company on the Issuance Date at nil consideration.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes

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

The Company shall redeem the principal amount of the Convertible Notes in equal installments of HK$16,000,000 (i.e. RMB13,043,000) on each of dates falling six, nine, twelve, fifteen, eighteen, twenty-one, twenty-four, twenty-seven, thirty, thirty-three, and thirty-six months after the Issuance Date (each a "Repayment Date") and the first Repayment Date being the 180th day following the Issuance Date.

If on any date (the "Call Exercise Date") after the Issuance Date, the volume weighted average price per share, is greater than 160% of the reference market price as mentioned in the Subscription Agreement for each of the 20 consecutive trading days immediately preceding the Call Exercise Date and provided that certain standard equity conditions are and remain satisfied during such period, the Company may issue a call exercise notice to require the Subscriber to exercise the right of conversion attached to the Convertible Notes in whole or in part.

The Company is obliged to pay interest on the Convertible Notes at a rate of 7% per annum on each Repayment Date. Interest is computed on the basis of a 360-day year for the actual number of days lapsed.

The principal repayment amount and accrued but unpaid interest thereto shall be payable either i) in whole in cash; ii) in whole in shares; or iii) in a combination of cash and shares, provided that the Company may only pay such installments in shares, in accordance with certain terms and conditions as mentioned in the Subscription Agreement.

Upon the occurrence of any events of defaults or certain events as mentioned in the Subscription Agreement, the Notes Holder may elect to require the Company to redeem all of the outstanding principal amount under the Convertible Notes. As long as the Notes Holder does not elect to require the Company to redeem the Convertible Notes before the Maturity Date due to the occurrence of the events aforementioned, the Company is obliged to pay interest at 7% per annum until the Convertible Notes are converted or redeemed, whichever date is earlier.

In the event where the Company fails or is unable to deliver shares of the Company upon the exercise of any right to convert attached to any Convertible Notes due to any restriction on the allotment or issuance of shares, the Company shall (i) deliver the maximum number of share permitted to be allotted or issued by the Company to the Notes Holder (the "Shortfall Shares") and (ii) pay such Notes Holder an amount in cash to be calculated by: 120% x (number of shares required to be delivered by the Company – the Shortfall Shares) x the volume weighted average price per share as of the date of the relevant convertible notes conversion notice.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

The Convertible Notes included a debt instrument with embedded derivatives. Upon initial recognition, the Convertible Notes are designated as financial liabilities at fair value through profit or loss. The fair value of the Convertible Notes is remeasured at each Repayment Date and at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the income statement.

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

On 7 December 2012, the Company has redeemed the first outstanding installment of HK$16,000,000 of the Convertible Notes and the accrued interest of HK$6,160,000 (up to the first Repayment Date) by issuing 21,806,833 ordinary shares with a nominal value of US$0.01 each at a price of approximately HK$1.02 per share to the Subscriber for the first repayment due on 21 December 2012 (the "First Repayment"). The fair value of the first outstanding installment redeemed was RMB14,475,000 at the First Repayment Date on 21 December 2012, with reference to the valuations performed by BMI Appraisals Limited ("BMI"), an independent firm of professionally qualified valuers, located at Suites 11-18, 31st Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

Warrants

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

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

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

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

Upon full subscription of the Warrants, a total of 63,691,570 new shares will be issued and the net proceeds upon full subscription are approximately HK$94,900,000 (i.e. RMB77,360,000).

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing

At the same time of the Subscriber entering into the Subscription Agreement, the Stock Lender, a substantial shareholder of the Company, entered into a Stock Borrowing Agreement with the Subscriber, pursuant to which the Stock Lender lent 32,000,000 of the Company's ordinary shares to the Subscriber on the Issuance Date with no interest, consideration and collateral. The legal title of the shares will be returned to the Stock Lender on the second business day following the later of i) the date on which the principal and interest of the Convertible Notes have been redeemed and paid in full by the Company or ii) the date on which all Warrants have been exercised or expired.

The stock borrowing arrangement (the "Stock Borrowing Arrangement") is considered as a deemed capital contribution to the Company from a shareholder and accounted for as an equity component. Upon initial recognition, the value of such contribution from the substantial shareholder is accounted for as a deemed contribution in the shareholder's equity. The carrying amount of such contribution from the substantial shareholder is not remeasured in subsequent years.

Since 27 July 2012, the shares of the Company are no longer within the definition of "Designated Security" under the Rules of the Hong Kong Stock Exchange. At the request of the Subscriber, on 10 September 2012, the Stock Lender and the Subscriber entered into an amendment agreement (the "Amendment Agreement") to amend the Stock Borrowing Agreement. Pursuant to the Amendment Agreement, the terms in the Stock Borrowing Agreement has been modified to a share transfer agreement (the "Share Transfer Agreement"), pursuant to which 32,000,000 of the Company's ordinary shares were sold by the Stock Lender to the Subscriber at HK$32,320,000 (the "Consideration"). The Stock Lender is no longer entitled to the redelivery of the respective shares or their equivalent under the Share Transfer Agreement.

On 10 September 2012, the Stock Lender and the Subscriber entered into a letter agreement (the "Call and Put Option Confirmation") pursuant to which the Subscriber has granted to the Stock Lender the right to purchase 32,000,000 of the Company's ordinary shares at a strike price of HK$1.01 (the "Call Option") and the Stock Lender has granted the Subscriber the right to require the Stock Lender to purchase 32,000,000 of the Company's ordinary shares at the same strike price (the "Put Option"). The Stock Lender may exercise the Call Option at any time and from time to time during the period between (i) the later of (a) the date on which the principal and interest of the Convertible Notes and all other sums outstanding and payable by the Company under the Amendment Agreement have been redeemed and/or paid in full by the Company; and (b) the date on which all Warrants have been exercised or expired (the "Expiration Date") and (ii) 60 days after the Expiration Date (both dates inclusive), unless any of the events as stipulated under the Call and Put Option Confirmation occur earlier than the Expiration Date, which will then entitle the Stock Lender to exercise the Call Option earlier. The Subscriber may exercise the Put Option at any time and from time to time between the date on which the Amendment Agreement became effective and 60 days after the Expiration Date (both dates inclusive).

Pursuant to the Call and Put Option Confirmation, the Stock Lender shall pay the aggregate strike price payable upon exercise of the Put Option in full to the Subscriber as credit support for its obligations in relation to the Put Option, which has been satisfied by offsetting against the Subscriber's obligation to pay the Consideration of HK$32,320,000 to the Stock Lender.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Valuation of the Convertible Notes, the Warrants and the Stock Borrowing Arrangement

At the Issuance Date, the consideration received totaling HK$176,000,000 (i.e. RMB143,470,000) was allocated by the directors to the Convertible Notes, the Warrants and a deemed contribution from a substantial shareholder under the Stock Borrowing Arrangement, with reference to the valuations performed by BMI as follows:

	RMB'000
Financial liabilities at fair value through profit or loss:	
Convertible Notes	122,204
Warrants	9,083
Deemed contribution from a substantial shareholder under the Stock Borrowing Arrangement	12,183
Consideration received	143,470

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

	Convertible Notes *RMB'000*	**Warrants** *RMB'000*	**Total** *RMB'000*
Fair value at the Issuance Date	122,204	9,083	131,287
The First Repayment on 21 December 2012	(14,475)	–	(14,475)
Fair value loss charged to the income statement during the year	38,404	1,254	39,658
Fair Value at 31 December 2012	146,133	10,337	156,470

The fair value loss charged to the income statement of financial liabilities designated as at fair value through profit and loss attributable to changes in the credit risk of that liability during the year was RMB622,000 (2011: Nil). This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

13. CONVERTIBLE NOTES AND WARRANTS (continued)

As at 31 December 2012, the fair values of the Convertible Notes and the Warrants were calculated using the binomial model and the inputs into the model were as follows:

Convertible Notes

Stock price (HK$)	1.130
Principal amount (HK$'000)	160,000
Coupon rate (%)	7.000
Conversion price (HK$)	1.270
Volatility (%)	18.399 – 41.964
Risk-free rate (% per annum)	0.048 – 0.209
Expected Life (years)	0.220 – 2.470
Expected Dividend Yield (%)	4.867

Warrants

Stock price (HK$)	1.130
Exercise price (HK$)	1.490
Volatility (%)	41.964
Risk-free Rate (% per annum)	0.320
Expected Life (years)	4.975
Expected Dividend Yield (%)	4.867

MANAGEMENT DISCUSSION AND ANALYSIS

Baofeng Modern International Holdings Company Limited (the "Company"), together with its subsidiaries (collectively, the "Group" or "Baofeng Modern"), is a leading brand owner and manufacturer of slippers, sandals and casual footwear in the PRC with two own casual footwear brands – "Boree" and "Baofeng", and a footwear manufacturer for international renowned brands. Since 2012, the Group has initiated the brand licensee business by introducing three licensed brands, namely NBA, FTV and SpongeBob, laying a foundation for the Group to becoming a multi-brand operator.

The Group continued to maintain a satisfactory growth in its revenue, gross profit and profit from its core operations for the year ended 31 December 2012 (the "Year"). Revenue increased by 20.9% from last year to RMB1,351.5 million (2011: RMB1,117.7 million). Gross profit margin rose by 1.1 percentage points to 34.5% (2011: 33.4%). Profit generated from the core operations recorded an increase of 19.6% from last year to RMB193.6 million (2011: RMB161.9 million). Besides, our own branded products continued to generate higher revenue and remained the major driving force in growth of the Group. The revenue from our two own brands was RMB745.5 million, increased by 30.9% and accounted for 55.2% of the Group's total revenue, a further increase from 51.0% of last year. The brand licensee business initiated during the Year contributed RMB21.7 million to the Group's revenue. During the Year, as the Group's issuance of convertible notes and warrants to a strategic investor, which was recognised at fair value in accordance with the International Financial Reporting Standards, resulted in a loss arising from fair value changes in an amount of RMB39.7 million. As a result, the Group recorded a net profit of RMB153.9 million during the Year.

BUSINESS REVIEW

Own Branded Business

The Boree brand, targeting the medium- to high-end market of slippers, sandals and casual footwear, continued to be the key driving force in the rapid growth of the Group. Revenue for the Year amounted to RMB526.9 million (2011: RMB402.3 million), representing a 30.9% increase from the previous year. The increase in revenue was primarily attributable to the continuous expansion of sales network, and the introduction of more diversified and high-end designs of footwear products, as well as the Group's strenuous efforts in marketing, which has enhanced the brand awareness and attractiveness of our own branded products. The footwear with Swarovski Elements crystals launched by the Group received warm response from our distributors and recorded satisfactory sales performance. The Group will continue to launch more luxurious footwear to upgrade our products.

With a focus on the mass market, the Baofeng brand also achieved satisfactory growth during the Year. Revenue generated from the Baofeng brand amounted to RMB218.6 million, representing an increase of 30.8% (2011: RMB167.2 million).

Brand Licensee Business

The brand licensee business initiated during the Year has also contributed to the revenue of the Group. At the fall/winter sales fair held in May and the spring/summer sales fair held in November 2012, the three newly-introduced licensed brands, namely NBA, FTV and SpongeBob, attracted new distributors, whose businesses engage in the male, sportswear, children, and high-end female footwear, to work with the Group, thus further expanding our retail sales network. Apart from that, we also deepened our partnership with NBA China by opening an NBA concept store in Beijing in October. The concept store, known as NBA Home, is currently the only official NBA fans store in China which provides NBA licensed products to some 300 million NBA fans in China. NBA Home is now being operated by a Beijing distributor of Baofeng Modern. If NBA Home receives warm response from the market, the Group may open more concept stores in other cities in China, and will consider taking over the operation of such fans stores. NBA Home focuses on selling licensed products such as NBA slippers and sandals, casual footwear, and other NBA periphery products including backpacks, bottles and towels, etc.

Besides, our NBA slippers and sandals are now available in various sales points in the Southeast Asian region. Attributable to the popularity of the brand in such markets, the sales performance has been satisfactory. Apart from that, following the acquisition of licenses for the FTV and SpongeBob brands at the beginning of the Year, the Group has already launched new spring/summer and fall/winter series at the sales fair in November 2012. Targeting at high-end female footwear and children footwear markets respectively, the FTV and SpongeBob brands helped boost the diversity of our product range. The business scope of the Group has also widened from merely female footwear to a range of male, female and children footwear, witnessing a robust expansion of our product lines as well as a further penetration into different consumer clusters.

Overseas Business

As regards the exploration of overseas markets, Southeast Asian countries represent a huge and potential market for the Group, as slippers and sandals are essential footwear for people in those countries where the climate is hot and humid all year round. By the end of 2012, the Group has successfully established our market presence in Indonesia, the Philippines, Singapore and Malaysia, the four major economies in Southeast Asia. While sales in the four countries were satisfactory, the performance in the Philippines and Singapore was more remarkable.

The Group's first Boree store in Southeast Asia was officially opened in June 2012 in Manila, Philippines. The Group has also established other retail sales points in trendy shopping malls with robust traffic flow during the Year. Furthermore, our overseas business has expanded into the Indonesian and Filipino markets, with some sales point established respectively. Since the sales performance of the Year was satisfactory, the Group is discussing with local distributors on the expansion of the sales network. We expect the overseas business sector will contribute considerable revenue in the coming future.

Distribution Network

During the Year, the number of sales points of the Group in the PRC continued to increase, and a total of 1,068 sales points have been set up in department stores, shopping centers, specialty stores, supermarkets and megastores, etc. As a licensee of the NBA brand, the Group was able to set foot in major sportswear chain stores in China, including Sport 100, Baowei, Baoyuan, Baomin and other sportswear retailers. Apart from that, the Group encouraged distributors to open large multi-brand flagship stores, in order to pave way for establishing our own ones. For instance, our distributor in Fujian Province opened the first "BF&F" store in Quanzhou, where the head office of the Group is located. The store offers our own branded products and licensed branded products, providing customers with a one-stop shopping experience. Furthermore, following the Tsim Sha Tsui store, the Group has opened another Boree store in Causeway Bay in September 2012. Given that Causeway Bay is a prime shopping destination for local people and tourists, the store will further promote reputation and brand recognition of the Group. With growing brand awareness, wider network coverage and diversified product range, our distributors are able to set up sales points with greater flexibility in more locations. Looking forward, the Group will continue to expand our business coverage proactively.

Original Equipment Manufacturer ("OEM") Business

The Group strategically maintained a single-digit growth for OEM business in order to allocate more resources to our own branded business and brand licensee business which generate a higher gross profit. During the Year, the revenue generated from OEM business amounted to RMB584.4 million (2011: RMB548.2 million), representing a 6.6% increase from the previous year. In the future, we will continue to optimize the OEM business by putting priority on orders with higher gross profit, so as to enlarge the overall profit margin of the Group.

Marketing Campaigns

During the Year, Baofeng Modern continued to launch a variety of marketing campaigns to penetrate into various customer groups and enhance the market recognition of our own brands in the field of slippers, sandals and casual footwear. In addition to normal marketing campaigns including TV, print, network and outdoor advertisements, the Group became the exclusive title sponsor of Mayday's Concert in Quanzhou and the official sponsor of the final contest of the 17th "21st Century Cup" National English Speaking Competition. Furthermore, the second season of the "Selection of Baoren Rui Lady" jointly organized by the Group and Rayli, a famous fashion magazine in Beijing, was concluded successfully during the Year. The campaigns not only enhanced the brand recognition of the Group among consumers, especially the younger generation, but also helped to effectively reinforce the trendy image and position of the Group in the market.

Introducing Strategic Investor

During the Year, the Company entered into an agreement with Asia Equity Value Ltd (the "Subscriber"), pursuant to which the Subscriber subscribed for convertible notes in an aggregate principal amount of HK$176.0 million with the final redemption date falling on 21 June 2015. At the Subscriber's option, the notes are convertible into fully paid ordinary shares of US$0.01 each in the capital of the Company at the conversion price of HK$1.31 per share (later adjusted to HK$1.27 per share upon an interim dividend for 2012 was distributed by the Company). Pursuant to the agreement, the Company also issued to the Subscriber warrants which carry the rights to subscribe for 62,026,431 shares at the subscription price of HK$1.53 per share (later adjusted to 63,691,570 shares at the subscription price of HK$1.49 per share upon an interim dividend for 2012 was distributed by the Company) at any time during the five years from 22 December 2012 to 22 December 2017 at the discretion of the Subscriber. Assuming full exercise of the warrants, the net proceeds which will be received by the Company are estimated to be HK$94.9 million.

As disclosed in the interim results announcement during the Year, the proceeds from the above activities, together with our internal fund, will be utilised to support the Group's medium- to long-term development plan, which are set to kick off in the year 2013. (Please refer to the section headed "Future Prospects" for details of the future plans.)

FINANCIAL REVIEW

Revenue by Product Category

	2012	2011	
	RMB'000	*RMB'000*	*% Increase*
Revenue (Total)	**1,351,544**	1,117,674	20.9%
Revenue (Boree Products)	**526,858**	402,339	30.9%
Revenue (Baofeng Products)	**218,596**	167,168	30.8%
Revenue (Brand Licensee Business)	**21,658**	–	N/A
Revenue (OEM Business)	**584,432**	548,167	6.6%

For the year under review, the revenue of the Group increased by 20.9% to RMB1,351.5 million. Revenue from Boree brand products increased by 30.9% to RMB526.9 million as compared with that of last year while revenue from Baofeng brand products increased by 30.8% to RMB218.6 million. Apart from the continuous expansion of the sales network, the growth was also attributable to the introduction of more diversified and high-end designs for footwear and the constant efforts in promotion. Such initiatives have continuously enhanced the market recognition and attractiveness of our own brands, leading to a growth in sales. The growth in the OEM business remained stable as scheduled and the revenue from the OEM business increased by 6.6% as compared with that of last year. During the year, the newly-introduced brand licensee business contributed RMB21.7 million to the revenue of the Group.

Selling and Distribution Costs

During the Year, selling and distribution costs increased by 42.6% to RMB116.4 million as compared with that of last year (2011: RMB81.6 million), which accounted for 8.6% (2011:7.3%) of the Group's revenue. The increase was primarily attributable to the expenses incurred by our aggressive advertising and marketing campaigns, as well as the royalty fees for the newly-introduced brand licensee business.

General and Administrative Expenses

During the Year, general and administrative expenses recorded an increase of 24.1% to RMB72.7 million (2011: RMB58.6 million) as compared with that of last year, which accounted for 5.4% (2011: 5.2%) of the Group's revenue. The increase was mainly due to the increase in the number of management personnel, share option expense as well as the professional fees arising from the issuance of convertible notes and warrants during the Year.

Liquidity and Financial Resources

During the year under review, net cash inflow from operating activities of the Group amounted to RMB227.2 million (2011: RMB135.3 million). As at 31 December 2012, cash and bank balances were RMB1,035.6 million, representing a net increase of 49.1% as compared with RMB694.8 million as at 31 December 2011. The interest-bearing bank borrowings of the Group as at 31 December 2012 was in a sum of RMB40.7 million (31 December 2011: RMB383.9 million). All bank loans were repayable within one year.

Pledge of Assets

As at 31 December 2012, the Group secured its bills payables by the pledge of its time deposits amounting to RMB70,000. The Group also secured its bank borrowings by the pledge of the Group's trade receivables amounting to RMB6.4 million. At 31 December 2011, the secured bank loans of the Group were pledged by the Group's bank deposits of RMB382.0 million. During the Year, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

Contingent Liabilities

As at 31 December 2012 and 31 December 2011, the Group had no material contingent liabilities.

Profit Attributable to Owners of the Company

The total consolidated profit for the Year attributable to owners of the Company amounted to RMB153.9 million, representing a decrease of 4.2% as compared with that of last year (2011: RMB160.7 million). Comparing the results of the Group for the Year with that of 2011, there was a significant item affecting the net profit of the Group, namely the "Fair value loss on financial liabilities at fair value through profit or loss" arising from the convertible notes and warrants issued during the Year.

The details are set out as follows:

	2012	2011
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company	**153,932**	160,699
Fair value loss on financial liabilities at fair value through profit or loss	**39,658**	–
Finance cost for exchangeable note	**–**	1,210
Profit from core operations	**193,590**	161,909
Growth	**19.6%**	

Taking into account of the above significant items, the profit from the core operations of the Group during the year as set out above (the "Profit from Core Operations") was RMB193.6 million, representing an increase of 19.6% as compared with that of 2011.

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. Management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure should the need arise. During the year, given the appreciation of Renminbi, the Group has entered into foreign exchange derivative transactions to control the foreign exchange risk.

Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group was 24.6% (as at 31 December 2011: 34.3%). Gearing ratio was calculated as total debts divided by the sum of total equity and total debts. Total debts refer to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 31 December 2012, the Group has a total of 2,704 employees (as at 31 December 2011: 2,636 employees).

Use of Net Proceeds from the Share Offering

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 net proceeds received by the Company from the share offering were HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilisation of the net proceeds as at 31 December 2012 is set out as follows:

Nature	**Amount raised** *RMB'000*	**Amount utilised** *RMB'000*
To increase production capacity	135,683	69,986
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	5,971
To establish flagship shops and showrooms	19,383	2,040
To strengthen the distribution resource planning system	19,383	2,645
General working capital	38,767	38,767
Total:	387,666	216,326

FUTURE PROSPECTS

We are endeavoring to reach the goals stated in our detailed medium- to long-term expansion plan as contained in the interim report for the six months ended 30 June 2012. The Group will continue to expand our brand business both vertically and horizontally. Vertical development includes constant enhancement of the value of our own brands by continuous effective marketing efforts, thus further securing our leading position in the industry of trendy slippers, sandals and casual footwear. Besides, the Group will also increase our investment in product research and development, upgrade our own brands and adjust product pricing upward correspondingly through improvement in product quality and product range diversity, so as to expand our profitability. Furthermore, the Group will develop its brand business on a horizontal front by seeking for new brand cooperation, whether through ways of licensing or acquisition, so as to further enrich our brand resources. By incorporating more premium brands into our brand portfolio, it can also upgrade the image of the Group and its own brands.

As to our overseas business, apart from the existing distributors, we are further exploring opportunities for cooperation with well-established local distributors with extensive experience in the Southeast Asian market. We are also planning to expand our presence in overseas markets by establishing footholds in more countries in Southeast Asia.

In addition, as to production capacity, the Group is considering to establish a new plant in an inland province to cope with the increasing number of orders received due to business expansion both at home and abroad and to meet the development needs over the next decade. The new plant will be located in a nearby province where labour force is relatively more abundant and with lower labour cost. The decision on site selection must enable us to reduce production costs and enhance the overall profitability.

The construction of the new plant will be in three phases over six years with the first phase to be completed in three years. Apart from the expansion of production facilities, the Group will also build a new multi-functional headquarters near our plant in Quanzhou to cater for the needs of the continuous business expansion. The Group may commence the construction of the building in 2013. The new headquarters building with a logistic base will replace the existing head office building which is located next to the current production plant and will function as the hub of services and control connecting the nationwide markets.

As to long-term vision, following the successful transformation to a multi-brand operator, the next goal of the Group is undoubtedly to gradually shape itself into a self-operated retailer, and to extend downward the farthest end of the industry chain, thus further broadening the profitability of the Group.

In view of the growing pace of urbanization in the PRC and the increasing income of the people, the city clusters will act as the leading force to drive the economic growth. Against such backdrop, the domestic market-oriented sectors will doubtlessly benefit from the trend. It is expected that the growth momentum of the economy of the PRC will continue. The Group is in its growth phase which still holds plenty of room and potential for development. Leveraging on favorable policies, the Group will capture every good opportunity to maximize returns to the shareholders of the Company through a wide range of proactive strategies both at home and abroad.

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.

On 1 April 2012, the Code on Corporate Governance Practices (the "Old CG Code") (formerly set out in Appendix 14 to the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) was amended and renamed as Corporate Governance Code and Corporate Governance Report (the "New CG Code"). The Board is committed to complying with the code provisions as stated in the New CG Code to the extent that the directors of the Company (the "Directors") consider it is applicable and practical to the Company.

The Company complied with all the code provisions and a majority of the recommended best practices under the Old CG Code from 1 January 2012 to 31 March 2012 and the New CG Code from 1 April 2012 to 31 December 2012.

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 Old CG Code. These terms of reference were revised on 29 March 2012 to comply with the New 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 2012 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 506,000 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	Lowest	Aggregate consideration (excluding transaction cost)
		HK$	*HK$*	*HK$'000*
July	506,000	0.88	0.85	439

The premium of approximately HK$400,000 (equivalent to RMB325,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$39,000 (equivalent to RMB32,000) 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.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 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 27 May 2013 to 30 May 2013 (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 branch 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 24 May 2013.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 30 May 2013 (Thursday). 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 29 April 2013.

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, 27 March 2013

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.