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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1121)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board (the “Board”) of directors (the “Directors”) of Baofeng Modern International Holdings Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group” or “Baofeng Modern”) for the six months ended 30 June 2013 (the “Period”), together with the unaudited comparative figures for the corresponding period in 2012 and the relevant explanatory notes as set out below.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Note	RMB'000	RMB'000
		(unaudited)	(unaudited)
REVENUE	4	561,628	730,524
Cost of sales		<u>(378,752)</u>	<u>(478,578)</u>
Gross profit		182,876	251,946
Other income and gains	4	2,538	2,407
Selling and distribution costs		(38,857)	(50,632)
General and administrative expenses		(34,723)	(37,242)
Other operating expenses		(180)	(8)
Fair value gain/(loss) on financial liabilities at fair value through profit or loss	13	<u>13,692</u>	<u>(32,991)</u>
Profit from operations		125,346	133,480
Finance costs	5	<u>(1,561)</u>	<u>(3,437)</u>
PROFIT BEFORE TAX	6	123,785	130,043
Income tax expense	7	<u>(36,472)</u>	<u>(50,303)</u>
PROFIT AND TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>87,313</u>	<u>79,740</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
– Basic (RMB)		<u>0.09</u>	<u>0.08</u>
– Diluted (RMB)		<u>N/A</u>	<u>N/A</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

		30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		104,723	110,004
Prepaid land lease payments		35,607	36,020
Prepaid rent		3,003	4,537
Total non-current assets		143,333	150,561
CURRENT ASSETS			
Inventories		29,271	74,430
Trade receivables	10	66,490	142,582
Prepayments, deposits and other receivables		9,830	15,793
Value added tax recoverable		5,107	9,065
Pledged deposits	11	1,148	70
Cash and bank balances		1,115,841	1,035,600
Total current assets		1,227,687	1,277,540
CURRENT LIABILITIES			
Trade and bills payables	11	24,657	87,638
Deposits received, other payables and accruals		29,472	59,211
Interest-bearing bank borrowings	12	20,000	40,732
Amount due to a director	15	18,982	—
Convertible notes	13	109,718	146,133
Warrants	13	5,361	10,337
Tax payable		15,642	24,376
Total current liabilities		223,832	368,427
NET CURRENT ASSETS		1,003,855	909,113
TOTAL ASSETS LESS CURRENT LIABILITIES		1,147,188	1,059,674
NON-CURRENT LIABILITIES			
Deferred tax liabilities		4,333	3,071
Net assets		1,142,855	1,056,603
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	67,258	67,466
Reserves		1,075,597	989,137
Total equity		1,142,855	1,056,603

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal places of business are located in Huoju Industrial Zone, Quanzhou, Fujian Province, the People's Republic of China ("PRC") and 20th Floor, The Pemberton, 22-26 Bonham Strand, Sheung Wan, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011.

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

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. BASIS OF PREPARATION

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

The Group has adopted the following new IFRSs which are effective for the Group's financial year beginning on 1 January 2013.

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Government Loans</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – <i>Transition Guidance</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
IAS 19 (Amendments)	Amendments to IAS 19 <i>Employee Benefits</i>
IAS 27 (Revised)	<i>Separate Financial Statements</i>
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i>
IFRIC-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements Projects</i>	Annual Improvements to IFRSs 2009 – 2011 Cycle

The adoption of the new IFRSs has had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

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 and footwear products (“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, fair value gain/(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.

Period ended 30 June 2013

	Boree Products RMB’000 (unaudited)	Baofeng Products RMB’000 (unaudited)	Brand Licensee Business RMB’000 (unaudited)	OEM RMB’000 (unaudited)	Total RMB’000 (unaudited)
Segment revenue					
Sales to external customers	<u>219,118</u>	<u>90,297</u>	<u>12,554</u>	<u>239,659</u>	<u>561,628</u>
Segment results	73,047	30,447	(3,458)	43,983	144,019
<i>Reconciliation:</i>					
Interest income					2,090
Other unallocated income and gains					448
Corporate and other unallocated expenses					(34,903)
Fair value gain on financial liabilities at fair value through profit or loss					13,692
Finance costs					<u>(1,561)</u>
Profit before tax					<u><u>123,785</u></u>

3. OPERATING SEGMENT INFORMATION *(continued)*

Period ended 30 June 2012

	Boree Products <i>RMB'000</i> (unaudited)	Baofeng Products <i>RMB'000</i> (unaudited)	Brand Licensee Business <i>RMB'000</i> (unaudited)	OEM <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Segment revenue					
Sales to external customers	<u>282,806</u>	<u>112,950</u>	<u>8,710</u>	<u>326,058</u>	<u>730,524</u>
Segment results	87,706	39,310	1,788	72,510	201,314
<i>Reconciliation:</i>					
Interest income					2,067
Other unallocated income and gains					340
Corporate and other unallocated expenses					(37,250)
Fair value loss on financial liabilities at fair value through profit or loss					(32,991)
Finance costs					<u>(3,437)</u>
Profit before tax					<u>130,043</u>

Geographical Information

Revenue from external customers

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC (principal place of operations)	430,355	605,533
United States of America	125,199	113,991
South America	2,011	3,782
Europe	1,112	3,130
South East Asia	884	2,136
Other countries	<u>2,067</u>	<u>1,952</u>
	<u>561,628</u>	<u>730,524</u>

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Manufacture and sale of goods	<u>561,628</u>	<u>730,524</u>
Other income and gains		
Interest income	2,090	2,067
Rental income	90	72
Subsidy income*	304	268
Others	<u>54</u>	<u>—</u>
	<u>2,538</u>	<u>2,407</u>

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

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	1,561	3,189
Interest expenses on convertible notes	<u>—</u>	<u>248</u>
	<u>1,561</u>	<u>3,437</u>

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold*	378,752	478,578
Depreciation*	3,974	4,729
Amortisation of prepaid land lease payments	413	413
Minimum lease payments under operating leases in respect of land and buildings*	3,686	3,217
Employee benefit expenses* (including directors' remuneration)		
Wages and salaries	55,723	59,541
Equity-settled share option expense	1,417	3,036
Staff welfare	3,153	3,434
Pension scheme contributions	4,926	5,179
	<u>65,219</u>	<u>71,190</u>
Loss on disposal of items of property, plant and equipment	161	–
Research and development costs**	<u>1,863</u>	<u>1,390</u>

* The cost of inventories sold for the Period includes approximately RMB42,075,000 (2012: RMB51,858,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

7. INCOME TAX

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 Period (2012: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	33,536	46,264
Under provision in prior years	1,674	2,265
Deferred – PRC	<u>1,262</u>	<u>1,774</u>
Total tax charge for the period	<u>36,472</u>	<u>50,303</u>

8. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividend paid during the period		
Final dividend in respect of the financial year ended 31 December 2012 of Nil (2012: HK3.0 cent) per ordinary share	<u><u>-</u></u>	<u><u>24,360</u></u>
Proposed interim dividend		
Interim 2013: Nil (2012: HK2.5 cents) per ordinary share	<u><u>-</u></u>	<u><u>20,283</u></u>

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 Period attributable to owners of the Company and the weighted average number of ordinary shares of 1,016,145,695 (2012: the number of ordinary shares of 995,720,000) in issue during the Period.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the Period includes the 1,017,020,833 ordinary shares in issue and 3,300,000 repurchased and cancelled shares.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2013 and 30 June 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 period were higher than the average market price of the Company's ordinary shares for the period and accordingly, there is no dilutive effect on the basic earnings per share.

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:

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Within 3 months	51,232	142,582
3 to 6 months	15,238	—
Over 6 months	20	—
	<u>66,490</u>	<u>142,582</u>

As at 30 June 2013, the Group pledged trade receivables of Nil (31 December 2012: RMB6,387,000) 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:

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Within 3 months	23,033	87,406
3 to 6 months	1,624	232
	<u>24,657</u>	<u>87,638</u>

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms. The bills payables of RMB3,825,000 (31 December 2012: RMB232,000) were secured by the pledge of the Group's time deposits amounting to RMB1,147,500 as at 30 June 2013 (31 December 2012: RMB70,000).

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Current		
Bank loans – unsecured	20,000	35,000
Bank loans – secured	<u>–</u>	<u>5,732</u>
	<u>20,000</u>	<u>40,732</u>
Analysed into:		
Bank loans repayable within one year	<u>20,000</u>	<u>40,732</u>

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

Six months ended 30 June 2013	6% per annum
Year ended 31 December 2012	1.430% – 7.890% per annum

- (b) At 30 June 2013, the secured bank loans of the Group were secured by the pledge of the Group's trade receivables amounting to Nil (31 December 2012: RMB6,387,000).

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 (“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.

Convertible Notes

The Convertible Notes give the holder of the Convertible Notes (“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 of the Company at HK\$1.31 per share (the “Conversion Price”). The Conversion Price is subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the Convertible Notes. 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”).

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Convertible Notes *(continued)*

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 to 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 is 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: $120\% \times (\text{number of shares required to be delivered by the Company} - \text{the Shortfall Shares}) \times \text{the volume weighted average price per share as of the date of the relevant convertible notes conversion notice}$.

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 the end of each reporting period and any gains or losses arising from change 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.

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Convertible Notes *(continued)*

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.

During the period ended 30 June 2013, the Group repaid part of the principal amount of convertible notes and accrued interest by cash.

Warrants

The Warrants gives the holder of the Warrants (“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) (“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 statement of profit or loss and other comprehensive income.

During the Period, 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 share 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 ("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 amounts 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, Warrants and the Stock Borrowing Arrangement

At Issuance Date, the consideration received totaling HK\$176,000,000 (i.e. RMB143,470,000) was allocated by the directors to Convertible Notes, Warrants and deemed contribution from a substantial shareholder under the Stock Borrowing Arrangement, with reference to the valuations performed by BMI Appraisals Limited, an independent firm of professionally qualified valuers, located at Suites 11-18, 31st Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, as follows:

	<i>RMB'000</i>
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	<u>12,183</u>
Consideration received	<u><u>143,470</u></u>

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

	Convertible Notes <i>RMB'000</i>	Warrants <i>RMB'000</i>	Total <i>RMB'000</i>
Fair value at Issuance Date	122,204	9,083	131,287
Repayment during the period	(14,475)	–	(14,475)
Fair value loss charged to income statement during the year	<u>38,404</u>	<u>1,254</u>	<u>39,658</u>
Fair value at 31 December 2012	146,133	10,337	156,470
Repayment during the period	(27,699)	–	(27,699)
Fair value gain credited to income statement during the period	<u>(8,716)</u>	<u>(4,976)</u>	<u>(13,692)</u>
Fair value at 30 June 2013	<u><u>109,718</u></u>	<u><u>5,361</u></u>	<u><u>115,079</u></u>

13. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Valuation of the Convertible Notes, Warrants and the Stock Borrowing Arrangement *(continued)*

For the Period, the fair value of the Convertible Notes and Warrants were based on the valuation performed by Asset Appraisal Limited, an independent firm of professional qualified valuers, located at Room 901, 9th Floor, On Hong Commercial Building, No. 145 Hennessy Road, Wai Chai, Hong Kong and calculated using the binomial model and the inputs into the model were as follows:

Convertible Notes

Stock price (HK\$)	0.730
Principal amount (HK\$'000)	160,000
Coupon rate (%)	7.000
Conversion price (HK\$)	1.270
Volatility (%)	47.306 – 64.490
Risk-free rate (% per annum)	0.143 – 0.337
Expected Life (years)	0.230 – 1.980
Expected Dividend Yield (%)	3.425

Warrants

Stock price (HK\$)	0.730
Exercise price (HK\$)	1.490
Volatility (%)	47.664
Risk-free Rate (% per annum)	0.988
Expected Life (years)	4.482
Expected Dividend Yield (%)	3.425

14. SHARE CAPITAL

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

		Number of ordinary shares of US\$0.01 each	Nominal value of ordinary shares US\$'000	Nominal value of ordinary shares RMB'000
<i>Notes</i>				
Authorised:				
At 1 January 2012, 31 December 2012, 1 January 2013 and 30 June 2013		<u>5,000,000,000</u>	<u>50,000</u>	<u>342,400</u>
Issued:				
At 31 December 2011 and 1 January 2012		995,720,000	9,957	66,126
Issuance of new shares on 21 December 2012	(i)	21,806,833	218	1,372
Repurchase and cancellation of shares	(ii)	<u>(506,000)</u>	<u>(5)</u>	<u>(32)</u>
At 31 December 2012 and 1 January 2013		1,017,020,833	10,170	67,466
Repurchase and cancellation of shares	(iii)	<u>(3,300,000)</u>	<u>(33)</u>	<u>(208)</u>
At 30 June 2013		<u>1,013,720,833</u>	<u>10,137</u>	<u>67,258</u>

14. SHARE CAPITAL (continued)

Notes:

- (i) On 7 December 2012, the Company allotted and issued 21,806,833 ordinary shares of US\$0.01 each at a price of approximately HK\$1.02 per share to the Subscriber for payment of interest accrued on the Convertible Notes of HK\$6,160,000 and the first instalment of HK\$16,000,000 due on 21 December 2012. This resulted in an increase in issued share capital by RMB1,372,000 and share premium account by RMB13,103,000.
- (ii) During the year ended 31 December 2012, the Company repurchased its 506,000 ordinary shares at prices ranging from HK\$0.85 to HK\$0.88 per share at a total consideration of approximately HK\$439,000 (equivalent to RMB357,000). The 506,000 repurchased ordinary shares were cancelled during the year. 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.
- (iii) During the Period, the Company repurchased its 3,300,000 ordinary shares at prices ranging from HK\$0.92 to HK\$0.93 per share at a total consideration of approximately HK\$3,059,000 (equivalent to RMB2,478,000). The 3,300,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK\$2,811,000 (equivalent to RMB2,270,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK\$258,000 (equivalent to RMB208,000) was transferred from retained profits of the Company to the capital redemption reserve.

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Fees	—	409
Other emoluments:		
Salaries, allowances and benefits in kind	867	1,142
Equity-settled share option expense	549	1,880
Pension scheme contributions	16	8
	1,432	3,439
	30 June	31 December
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amount due to a director	18,982	—

The amount due to a director is unsecured, interest-free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Period, the Group recorded a decline of revenue due to the unfavorable and uncertain macroeconomic environment in Europe and United States. The revenue amounted to approximately RMB561.6 million, representing a decrease of 23.1% as compared with that of the corresponding period last year (2012: RMB730.5 million). The gross profit margin decreased by 1.9 percentage points to 32.6% (2012: 34.5%). The profit from the core operations amounted to approximately RMB73.6 million, representing a decrease of 34.8% as compared with that of the corresponding period last year (2012: RMB113.0 million).

Furthermore, with the traditional slack season of the second quarter in the industry and closure of several distributors' business, our sales performance was further affected. The revenue from the own branded business of the Group for the Period amounted to approximately RMB309.4 million, representing a decrease of 21.8% as compared with that of the corresponding period last year and accounted for 55.1% (2012: 54.2%) of the total revenue of the Group. Meanwhile, the newly introduced brand licensee business contributed revenue of approximately RMB12.6 million to the Group during the Period.

During the Period, the fair value gain of convertible notes and warrants at fair value through profit or loss was recognised in an amount of approximately RMB13.7 million (2012: fair value loss of RMB33.0 million), and as a result, the net profit of the Group for the Period amounted to approximately RMB87.3 million (2012: RMB79.7 million).

BUSINESS REVIEW

Own Branded Business

In the wake of economic slowdown, the Boree brand which targets the medium-to-high end market of slippers, sandals and casual footwear recorded a revenue of approximately RMB219.1 million (2012: RMB282.8 million) for the year, representing a decrease of 22.5% as compared with that of the corresponding period last year. Likewise, the revenue of the Baofeng brand which focuses on the mass market also recorded a decrease during the Period to approximately RMB90.2 million (2012: RMB113.0 million) as compared with that of last year. The decrease was mainly attributable to the closure of several distributors' business.

Brand Licensee Business

The sales of the Brand Licensee Business that initiated in 2012 did not live up to the expectations. At the fall/winter trade fair held in May 2013, the sales of the licensed brands were unsatisfactory. However, the sales of our NBA concept store "NBA Home" in Beijing and NBA licensed products were barely affected. The Group will continue to develop products under the NBA brand and may expand our presence in cities of China.

Overseas Business

With regard to the exploration of overseas markets, the Group successfully established a foothold in Indonesia, the Philippines, Singapore and Malaysia, the four major economies in Southeast Asia in the end of 2012. During the Period, the sales in the Philippines and Singapore were satisfactory. The Group's first Boree store in Southeast Asia, which is located at Manila, the capital of the Philippines, recorded positive sales. The Group is planning to establish additional retail outlets in trendy shopping malls at prime locations. Furthermore, our overseas business has set foot in Indonesia and the Philippines by establishing a number of retail outlets. Given the satisfactory sales performance, the Group is in the process of discussion with local distributors on expanding the retail sales network. It is envisaged that the overseas business segment will contribute considerable revenue to the Group in the future.

Distribution Network

As of 30 June 2013, the number and a total of 579 sales point of the Group was decreased which are located at places such as department stores, shopping centers, specialty stores, supermarkets and megastores. The decrease in number of sales points is due to some of the major chained sportswear stores were eliminated with the unsatisfactory sales performance and the Group is in the process of restructuring its sales and distribution network.

Original Equipment Manufacturer ("OEM") Business

During the Period, the sales of Group's OEM business decline. Revenue generated from the OEM business amounted to approximately RMB239.7 million during the Period (2012: RMB326.1 million), representing a decrease of 26.5% as compared with that of the corresponding period last year. The decline in OEM business was mainly due to the unfavorable and uncertain macroeconomic environment in Europe and United State.

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)	Increase/ (decrease) % change
Revenue (Total)	561,628	730,524	(23.1)%
Revenue (Boree Products)	219,118	282,806	(22.5)%
Revenue (Baofeng Products)	90,297	112,950	(20.1)%
Revenue (Brand Licensee business)	12,554	8,710	44.1%
Revenue (OEM business)	239,659	326,058	(26.5)%

For the Period under review, the revenue of the Group decreased by 23.1% to approximately RMB561.6 million as compared with that of the corresponding period last year. Revenue from Boree and Baofeng branded products decrease by 22.5% to approximately RMB219.1 million and 20.1% to approximately RMB90.2 million respectively as compared with that of the corresponding period last year. The business from the OEM business was decline and the revenue from the OEM business decreased by 26.5% as compared with that of the corresponding period last year. During the Period, the Brand Licensee business contributed approximately RMB12.6 million to the revenue of the Group.

Selling and Distribution Costs

During the Period, selling and distribution costs decreased by 23.3% to approximately RMB38.9 million as compared with that of the corresponding period last year (2012: RMB50.6 million), which accounted for 6.9% (2012: 6.9%) of the Group's revenue. The decrease was consistent with the decrease in Group's revenue and the decline in marketing and advertising expenses.

General and Administrative Expenses

General and administrative expenses recorded a decrease of 6.8% to approximately RMB34.7 million for the six months ended 30 June 2013 (2012: RMB37.2 million) as compared with that of the corresponding period last year, which accounted for 6.2% (2012: 5.1%) of the Group's revenue. The decrease was mainly due to the decrease in salaries and wages.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB130.7 million (2012: RMB128.7 million). As at 30 June 2013, cash and bank balances were approximately RMB1,115.8 million, representing a net increase of 7.7% as compared with approximately RMB1,035.6 million as at 31 December 2012. The interest-bearing bank borrowings of the Group as at 30 June 2013 was RMB20.0 million (31 December 2012: approximately RMB40.7 million). All bank loans were repayable within one year.

Pledge of Assets

As at 30 June 2013, the Group secured its bills payables by the pledge of its time deposits amounting to RMB1,147,500 (31 December 2012: RMB70,000). At 31 December 2012, the Group also secured its bank borrowings by the pledge of the Group's trade receivables amounting to approximately RMB6.4 million. During the period ended 30 June 2013, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

Contingent Liabilities

As at 30 June 2013 and 31 December 2012, the Group had no material contingent liabilities.

Profit Attributable to Owners of the Company

For the Period, the total consolidated profit attributable to owners of the Company amounted to approximately RMB87.3 million, representing a increase of 9.5% as compared with that of the corresponding period last year (2012: RMB79.7 million). Comparing the result of the Group for the Period with that of the corresponding period in 2012, there was a significant item affecting the net profit of the Group, namely the “Fair value gain or loss on financial liabilities at fair value through profit or loss” arising from the convertible notes issued during the corresponding period in 2012.

The details are set out as follows:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit for the Period attributable to owners of the Company	87,313	79,740
Fair value (gain)/loss on financial liabilities at fair value through profit or loss	(13,692)	32,991
Finance cost from convertible notes/exchangeable notes	<u>—</u>	<u>248</u>
Profit from Core Operations	<u>73,621</u>	<u>112,979</u>
Decline	34.8%	

Taking into account of the above significant items, the profit from the core operations of the Group for the Period as set out above (the “Profit from Core Operations”) was approximately RMB73.6 million, representing a decrease of 34.8% as compared with that of the corresponding period in 2012.

Foreign Exchange Risk

During the Period, the sales of the Group were mainly denominated in US dollars and Renminbi. The cost of sales and operating expenses were mainly denominated in Renminbi. Management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure should the need arise. During the Period, considering the appreciation of Renminbi, the Group has entered into foreign exchange derivative transactions to manage the foreign exchange risk.

Gearing Ratio

As at 30 June 2013, the gearing ratio of the Group was 15.4% (as at 31 December 2012: 24.6%). Gearing ratio was calculated as 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 30 June 2013, the Group had a total of 1,333 employees (as at 31 December 2012: 2,704 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 utilisation of the net proceeds as at 30 June 2013 is set out as follows:

Nature	Amount raised RMB'000	Amount utilised RMB'000
To increase production capacity	135,683	76,968
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	—
To strengthen design capability	19,383	6,995
To establish flagship shops and showrooms	19,383	2,996
To strengthen the distribution resource planning system	19,383	3,347
General working capital	38,767	38,767
Total:	<u>387,666</u>	<u>225,990</u>

FUTURE PROSPECTS

The outlook for 2013 is expected to remain challenging with slow global economic recovery. In response to the environment, we will take the necessary measures to improve our result by establishing stronger fundamentals to pursue long term growth:

1. Shaping well-received brand identity by optimizing visual presentation via overall improvement in product design, product packaging, item display, window dressing, accessory design and store image etc., so as to showcase the upgraded brand identity of Baofeng that highlights innovation, style and uniqueness, which, in turn, contribute to product appeal and consumers' confidence in our products to maintain the value of the brands.

2. Devoting to the market development of the two self-owned brands, Boree and Baofeng. The positioning of the Baofeng brand centers on indoor slipper products with the main sales channel targeting supermarkets, whereas the Boree brand focuses on shopping malls. We will endeavor to further expand our sales channels through various modes, such as establishing flagship stores, multi-brand stores and concept stores. Besides, given the great opportunities embedded in the e-commerce trade, we plan to open online stores to accommodate the increasing popularity of online shopping, which enables us to fully grasp the opportunities presented by the growing market.
3. Achieving the integration of three advantages in “product quality, delivery time and price” by improving product quality control procedures to ensure the quality of the manufactured goods, upgrading the IT system to allow accurate order processing and on-time delivery, and offering the best price to distributors to guarantee their profit margin.

While the performance of the first half of 2013 is below expectation, the Group await to restore growth and improve performance in the second half of the year. The Group aims to bring better returns to the shareholders of the Company through sound strategies and proactive expansion plans both at home and abroad.

OTHER INFORMATION

Interim Dividend

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

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) during the Period contained in Appendix 14 to the Listing Rules, save for the deviation discussed below:

Code Provision A.2.1. provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this provision because Mr. Zheng Jingdong has been performing both the roles of Chairman and Chief Executive Officer. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group’s business strategies and is beneficial to the Group. The Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of the roles of Chairman and Chief Executive Officer is necessary.

Code Provision A.6.7. provides that non-executive directors and independent non-executive directors should attend annual general meeting and develop a balanced understanding of the views of the shareholders. The Company deviates from this provision because the non-executive Directors, Mr. Sze Ching Bor and Mr. Cheung Miu and the independent non-executive Directors, Professor Bai Changhong and Ms. An Na did not attend the annual general meeting held on 30 May 2013 due to their business commitments.

Code Provision E.1.2. provides that the chairmen of remuneration and nomination committee should attend the annual general meeting to answer questions and collect views of shareholders . Due to other business commitments, the chairmen of remuneration and nomination committee, Ms. An Na and Professor Bai Changhong were unable to attend the annual general meeting held on 30 May 2013.

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 Period under review.

Purchase, Redemption or Sale of Listed Securities of the Company

During the period under review, the Company repurchased and cancelled its 3,300,000 shares on the Stock Exchange. Details of the share repurchases are set out below:

Month of repurchase	Number of share repurchased	Purchase price per share		Total paid HK\$
		Highest HK\$	Lowest HK\$	
March	3,300,000	0.93	0.92	3,059,000

Further details of these transactions are set out in note 14 to the condensed consolidated financial statements. Save as declared above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

Audit Committee

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises three independent non-executive Directors, namely Mr. Lee Keung, Professor Bai Changhong and Ms. An Na. Mr. Lee Keung is the chairperson of the audit committee. The unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the audit committee.

Company Secretary

The Company has engaged Mr. Au Wai Keung (“Mr. Au”), an external service provider, as its company secretary and Mr. Au can contact the Chief Executive Officer in relation to the day-to day affairs of the Company.

Publication of Interim Results and Interim Report

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

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

Hong Kong, 23 August 2013

As at the date of this announcement, the executive directors are Mr. Zheng Jingdong and Mr. Zhang Aiguo; 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.