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 2013

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 2013, together with the comparative figures for 2012 and the relevant explanatory notes as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	**2013** **RMB'000**	2012 RMB'000
REVENUE	4	**624,122**	1,351,544
Cost of sales		**(437,185)**	(885,501)
Gross profit		**186,937**	466,043
Other income and gains	4	**5,786**	5,319
Selling and distribution expenses		**(48,748)**	(116,427)
General and administrative expenses		**(61,010)**	(72,847)
Other operating expenses		**(603)**	(119)
Fair value gain/(loss) on financial liabilities at fair value through profit or loss		**17,116**	(39,658)
Profit from operations		**99,478**	242,311
Finance costs	5	**(4,621)**	(4,815)
PROFIT BEFORE TAX	6	**94,857**	237,496
Income tax expense	7	**(26,979)**	(83,564)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**67,878**	153,932
EARNINGS PER SHARE	9		
– Basic (RMB)		**0.07**	0.15
– Diluted (RMB)		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**103,010**	110,004
Prepaid land lease payments		**35,175**	36,020
Prepaid rent		**–**	4,537
		138,185	150,561
CURRENT ASSETS			
Inventories		**32,417**	74,430
Trade receivables	*10*	**62,283**	142,582
Prepayments, deposits and other receivables		**38,092**	15,793
Value added tax recoverable		**1,675**	9,065
Pledged deposits		**5,546**	70
Cash and bank balances		**1,173,494**	1,035,600
		1,313,507	1,277,540
CURRENT LIABILITIES			
Trade and bills payables	*11*	**35,116**	87,638
Deposits received, other payables and accruals		**32,350**	59,211
Interest-bearing bank borrowings	*12*	**142,000**	40,732
Convertible notes	*13*	**79,946**	146,133
Warrants	*13*	**3,019**	10,337
Amount due to a director		**33,440**	–
Tax payable		**355**	24,376
		326,226	368,427
NET CURRENT ASSETS		**987,281**	909,113
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,125,466**	1,059,674
NON-CURRENT LIABILITY			
Deferred tax liability		**3,071**	3,071
Net assets		**1,122,395**	1,056,603
EQUITY			
Share capital		**67,258**	67,466
Reserves		**1,055,137**	989,137
Total equity		**1,122,395**	1,056,603

NOTES TO CONSOLIDATED 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 places of business are located in Huoju Industrial Zone, Jiangnan Town, Licheng District, Quanzhou City, Fuijian 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 are 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 year.

The consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company.

In the opinion of the directors of the Company, 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 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following new and revised IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)") and Interpretations ("Int"), issued by the International Accounting Standards Board ("IASB") for the first time in current year:

Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2011 Cycle*
Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities*
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 19 (revised 2011)	*Employee Benefits*
IAS 27 (revised 2011)	*Separate Financial Statements*
IAS 28 (revised 2011)	*Investments in Associates and Joint Ventures*
IFRIC*-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

3. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group's reportable and operating segments are as follows:

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

(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, fair value gain or 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 excluded 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 excluded trade and bills payables, certain other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, amount due to a director and tax payable as these liabilities are managed on a group basis.

3. SEGMENT INFORMATION (continued)

Year ended 31 December 2013

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licence Business *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	**224,470**	**90,888**	**13,928**	**294,836**	**624,122**
Segment results	**66,758**	**27,331**	**(5,588)**	**48,526**	**137,027**
Reconciliation:					
Interest income					**4,141**
Other unallocated income and gains					**1,645**
Corporate and other unallocated expenses					**(60,451)**
Fair value gain on financial liabilities at fair value through profit or loss					**17,116**
Finance costs					**(4,621)**
Profit before tax					**94,857**
Segment assets	**9,610**	**1,787**	**15,509**	**49,548**	**76,454**
Reconciliation:					
Corporate and other unallocated assets					**1,375,238**
Total assets					**1,451,692**
Segment liabilities	**1,100**	**1,100**	**2,500**	**–**	**4,700**
Reconciliation:					
Corporate and other unallocated liabilities					**324,597**
Total liabilities					**329,297**

3. SEGMENT INFORMATION (continued)

Year ended 31 December 2012

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licence 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					1,485
Corporate and other unallocated expenses					(72,966)
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. SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2013	2012
	RMB'000	*RMB'000*
PRC (principal place of operations)	**435,240**	1,169,655
United States of America	**170,070**	161,039
South America	**3,634**	7,096
Europe	**1,747**	3,982
South East Asia	**8,073**	4,509
Other countries	**5,358**	5,263
	624,122	1,351,544

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

(b) Non-current assets

	2013	2012
	RMB'000	*RMB'000*
PRC (principal place of operations)	**138,185**	150,561

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

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013	2012
	RMB'000	*RMB'000*
Customer A	**71,721**	N/A[1]

[1] The corresponding revenue did not contributed over 10% of the total sales of the Group.

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:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**624,122**	1,351,544
Other income and gains		
Interest income	**4,141**	3,834
Sales of scrap material	**450**	–
Rental income	**243**	207
Subsidy income *	**905**	1,268
Others	**47**	10
	5,786	5,319

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

5. FINANCE COSTS

	2013	2012
	RMB'000	*RMB'000*
Interest on bank loans repayable within five years	**4,621**	4,815

6. PROFIT BEFORE TAX

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

	2013	2012
	RMB'000	*RMB'000*
Cost of inventories sold *	**437,185**	885,501
Depreciation *	**9,558**	9,812
Amortisation of prepaid land lease payments	**845**	826
Minimum lease payments under operating leases in respect of land and buildings *	**6,050**	7,124
Employee benefit expenses *		
Wages and salaries	**70,537**	112,939
Equity-settled share option expense	**392**	5,156
Staff welfare	**2,255**	8,596
Pension scheme contributions **	**8,823**	10,510
	82,007	137,201
Auditors' remuneration	**1,504**	2,297
Impairment losses on trade receivables	**1,162**	–
Write-down of inventories *	**7,805**	–
Loss on disposal of items of property, plant and equipment	**237**	101
Foreign exchange differences, net	**1,446**	137
Research and development costs ***	**2,145**	2,674

* *The cost of inventories sold for the year ended 31 December 2013 includes approximately RMB50,861,000 (2012: RMB90,228,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, and write-down of inventories, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

** *At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).*

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

7. INCOME TAX EXPENSE

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 (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.

	2013	2012
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**25,305**	78,228
Prior years under provision	**1,674**	2,265
Deferred – PRC	**–**	3,071
Total tax charge for the year	**26,979**	83,564

8. DIVIDENDS

	2013	2012
	RMB'000	*RMB'000*
Dividend paid during the year:		
Final – Nil (2011: HK3.0 cents) per ordinary share	**–**	24,360
Interim – Nil (2012: HK2.5 cents) per ordinary share	**–**	20,354
	–	44,714

No dividend was proposed for the year ended 31 December 2013, 2012 and since the end of the reporting period.

9. EARNINGS PER SHARE

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 1,014,923,299 (2012: 997,006,308) 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 2013 included the 1,017,020,833 ordinary shares in issue, 3,300,000 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 2012 included 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 convertible notes, and 560,000 repurchased and cancelled shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2013 and 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 years 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.

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, net of allowance for doubtful debts as at the end of the reporting period, based on the invoice date, is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**26,243**	142,582
3 to 6 months	**18,386**	–
7 to 12 months	**17,654**	–
	62,283	142,582

As at 31 December 2013, the Group did not pledge its trade receivables to secure the bank borrowings granted to the Group (2012: pledged trade receivables of RMB6,387,000) (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:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**24,747**	87,406
Over 3 months	**10,369**	232
	35,116	87,638

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms (2012: two to three months). The bills payable of RMB17,818,000 (2012: RMB232,000) were secured by the pledge of the Group's time deposits amounting to RMB5,546,000 as at 31 December 2013 (2012: RMB70,000).

12. INTEREST-BEARING BANK BORROWINGS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Current		
Bank loans – unsecured	**–**	35,000
Bank loans – secured	**142,000**	5,732
	142,000	40,372
Analysed into:		
Bank loans repayable within one year	**142,000**	40,372

(a) The bank loans were denominated in RMB (2012: RMB and USD) and bore fixed interest rates (2012: floating interest rates) ranging from:

Year ended 31 December 2013	5.360% – 6.000% per annum
Year ended 31 December 2012	1.430% – 7.890% per annum

(b) At 31 December 2013, the secured bank loans of the Group were secured by a pledge of the Group's buildings and land use right amounting to RMB25,475,000 and RMB5,223,000 respectively. In addition, the bank loans were guaranteed by two independent third parties.

(c) At 31 December 2012, the secured bank loans of the Group were secured by a pledge of the Group's trade receivables amounting to approximately 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 (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 (see "Stock Borrowing" below).

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.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes (continued)

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.

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 had 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 had 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.

During the year ended 31 December 2013, the Group repaid part of the principal amount of convertible notes of RMB50,560,000 and accrued interest of RMB5,829,000 by cash.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants

The Warrants give 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.

On 7 February 2013, the Company has entered into a supplemental instrument with the Subscriber 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.

No warrants have been exercised during both year ended 31 December 2012 and 2013.

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).

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.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing (continued)

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 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 had 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 (equivalent to RMB143,470,000) was allocated by the directors of the Company 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	(14,475)	–	(14,475)
Fair value loss charged to profit or loss during the year	38,404	1,254	39,658
Fair value at 31 December 2012	146,133	10,337	156,470
The second to fifth repayment	(56,389)	–	(56,389)
Fair value gain credited to profit or loss during the year	(9,798)	(7,318)	(17,116)
Fair value at 31 December 2013	79,946	3,019	82,965

13. CONVERTIBLE NOTES AND WARRANTS (continued)

As at 31 December 2013, the fair values of the Convertible Notes and the Warrants were based on the valuations performed by Asset Appraisal Limited (2012: BMI), an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	2013	2012
Convertible Notes		
Stock price (HK$)	**0.53**	1.130
Principal amount (HK$'000)	**96,000**	160,000
Coupon rate (%)	**7.000**	7.000
Conversion price (HK$)	**1.310**	1.270
Volatility (%)	**37.187 – 62.790**	18.399 – 41.964
Risk-free rate (% per annum)	**0.101 – 0.258**	0.048 – 0.209
Expected Life (years)	**0.220 – 1.470**	0.220 – 2.470
Expected Dividend Yield (%)	**0**	4.867
Warrants		
Stock price (HK$)	**0.530**	1.130
Exercise price (HK$)	**1.490**	1.490
Volatility (%)	**48.370**	41.964
Risk-free Rate (% per annum)	**1.030**	0.320
Expected Life (years)	**3.975**	4.975
Expected Dividend Yield (%)	**0**	4.867

14. COMPARATIVE AMOUNTS

Exchange loss of approximately RMB137,000 which had previously been recorded under "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income of 2012, was reclassified to "General and administrative expenses". The comparative figure was reclassified to conform the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

With the slowdown of economic growth in Mainland China and the downturn in the United States and the Europe sustained throughout 2013, the Group faced strong headwinds on a number of challenges in 2013. The Group recorded a significant decline of revenue, gross profit and net profit for the year ended 31 December 2013. Revenue decreased by 53.8% from last year to approximately RMB624.1 million (2012: RMB1,351.5 million). Gross profit margin declined by 4.5 percentage points to 30.0% (2012: 34.5%). Besides, the performance of our own branded products was also affected by the decelerated growth of Mainland China. The revenue from our two own brands was approximately RMB315.4 million, decreased by 57.7% and accounted for 50.5% of the Group's total revenue. The brand licensee business contributed approximately RMB13.9 million to the Group's revenue. During the year, the fair value gain of convertible notes and warrants at fair value through profit or loss was recognised in an amount of approximately RMB17.1 million (2012: fair value loss of RMB39.7 million), and as a result, the net profit of the Group for the year amounted to approximately RMB67.9 million (2012: RMB153.9 million).

BUSINESS REVIEW

Own Branded Business

The depressed economic growth of China led to an adverse operating environment for China retail market. The Boree brand, targeting the medium-to-high-end market of slippers, sandals and casual footwear, recorded a revenue for the year amounted to approximately RMB224.5 million (2012: RMB526.9 million), representing a 57.4% decrease from the previous year. On the other hand, the Baofeng brand, focusing on the mass market, also suffered the decline in sales during the year. Revenue generated from the Baofeng brand amounted to approximately RMB90.9 million, representing decrease of 58.4% from approximately RMB218.6 million in 2012.

Brand Licensee Business

The performance of brand licensee business in the year was below our expectation. For both the Fall/Winter sales fair held in May and the Spring/Summer sales fair held in October 2013, the sales of the licensed brands were unsatisfactory. Furthermore, the sales of our NBA concept store "NBA Home" in Beijing and NBA licensed products recorded a weak sales for the year.

Overseas Business

Due to the decline of worldwide economy, the performance of overseas markets was disappointed. Our main overseas markets previously established in Indonesia, the Philippines, Singapore and Malaysia recorded decrease in sales. Several stores of distributors which recorded operating losses were being closed down and led to the further effect on the decrease in sales performance.

Original Equipment Manufacturer ("OEM") Business

During the year, the sales of Group's OEM business declined. Revenue generated from the OEM business amounted to approximately RMB294.8 million for the year (2012: RMB584.4 million), representing a decrease of 49.6% as compared with last year. The decline in OEM business was mainly due to the unfavorable and uncertain worldwide economy.

FINANCIAL REVIEW

Revenue by Product Category

	2013	2012	Decrease
	RMB'000	*RMB'000*	*%*
Revenue (Total)	**624,122**	1,351,544	(53.8%)
Revenue (Boree Products)	**224,470**	526,858	(57.4%)
Revenue (Baofeng Products)	**90,888**	218,596	(58.4%)
Revenue (Licensed Brand Business)	**13,928**	21,658	(35.7%)
Revenue (OEM Business)	**294,836**	584,432	(49.6%)

For the year under review, the revenue of the Group decreased by 53.8% to approximately RMB624.1 million. Revenue from Boree brand products decreased by 57.4% to approximately RMB224.5 million as compared with that of last year while revenue from Baofeng brand products decreased by 58.4% to approximately RMB90.9 million. The business from the OEM business decreased and the revenue decreased by 49.6% as compared with that of last year. During the year, the brand licensee business contributed approximately RMB13.9 million to the revenue of the Group.

Selling and Distribution Costs

During the year, selling and distribution costs decreased by 58.1% to approximately RMB48.7 million as compared with that of last year (2012: RMB116.4 million), which accounted for 7.8% (2012: 8.6%) of the Group's revenue. The decrease was consistent with the decrease in the Group's revenue and the decline in marketing and advertising expenses.

General and Administrative Expenses

During the year, general and administrative expenses recorded a decrease of 16.2% to approximately RMB61.0 million (2012: RMB72.8 million) as compared with that of last year, which accounted for 9.8% (2012: 5.4%) of the Group's revenue. The decrease was mainly due to the decrease in salaries and wages.

Liquidity and Financial Resources

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB75.0 million (2012: RMB227.2 million). As at 31 December 2013, cash and bank balances were approximately RMB1,173.5 million, representing a net increase of 13.3% as compared with approximately RMB1,035.6 million as at 31 December 2012. The interest-bearing bank borrowings of the Group as at 31 December 2013 was approximately RMB142 million (31 December 2012: RMB40.7 million). All bank loans are repayable within one year.

Pledge of Assets

As at 31 December 2013, the Group secured its bills payables by the pledge of its time deposits amounting to approximately RMB5.5 million (2012: RMB70,000). The Group also secured its bank borrowings by the pledge of the Group's buildings and land use right amounting to approximately RMB25.5 million and approximately RMB5.2 million (2012: Nil). As at 31 December 2012, the Group secured its bank borrowings by the pledge of the Group's trade receivables amounting to approximately RMB6.4 million.

Contingent Liabilities

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

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 2013, the gearing ratio of the Group was 22.5% (as at 31 December 2012: 24.6%). 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 2013, the Group has a total of approximately 1,000 employees (as at 31 December 2012: 2,700 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 2013 is set out as follows:

Nature	Amount raised *RMB'000*	Amount utilised *RMB'000*
To increase production capacity	135,683	77,609
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	8,107
To establish flagship shops and showrooms	19,383	3,328
To strengthen the distribution resource planning system	19,383	4,178
General working capital	38,767	38,767
Total:	387,666	228,906

Future Prospects

In view of the uncertainties in the domestic and global economy, continuous sluggish consumption sentiment in Mainland China and the unprecedented RMB appreciation pressure during the year, the management expects that the market prospect will remain uncertain and the year of 2014 will be challenging, thus the Group remains prudent about its performance in 2014.

Nevertheless, the Group will strive to enhance the brand image by employing multinational trendy design teams to design the latest products for Boree, and use the new generation of shelves in stores that sell Boree products to optimize the visual effects, so as to strengthen product appeal and consumer confidence in our products, enabling the Group to enhance its competitiveness at a time of difficulties.

On the other hand, as the internet develops rapidly and online sales platforms become more mature, online shopping becomes increasingly popular. Given the strong growth in online sales, we intend to expand e-commerce sales channel and open online stores, so as to establish an interactive, simple and convenient platform to promote our products on the internet.

In addition to the existing business, the Group is seeking for other supply sources for the investment projects, so as to control costs and ensure a stable supply as well as to diversify its business base, effectively mitigating operating risk and maximising returns to the shareholders of the Company.

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.

Throughout the year ended 31 December 2013, the Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except where otherwise stated.

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 provide 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 the Directors. The Company made specific enquiry of all the Directors who confirmed that they have complied with the required standards set out in the Model Code throughout the year under review.

AUDIT COMMITTEE

An audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the CG Code as set out in appendix 14 of 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 and review and monitor appointment of the auditors and their independence. 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 2013 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 3,300,000 shares on the Stock Exchange. Details of the share repurchases are set out below:

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

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 2013.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

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 Jingdong
Chairman

Hong Kong, 25 March 2014

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.