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 2014

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 2014 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2013 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 2014

	Note	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
REVENUE	*4*	**93,228**	561,628
Cost of sales		**(80,236)**	(378,752)
GROSS PROFIT		**12,992**	182,876
Other income and gains	*4*	**5,388**	2,538
Selling and distribution costs		**(10,546)**	(38,857)
General and administrative expenses		**(19,914)**	(34,723)
Other operating expenses		**(132)**	(180)
Fair value (loss)/gain on financial liabilities at fair value through profit or loss	*12*	**(10,828)**	13,692
(LOSS)/PROFIT FROM OPERATIONS		**(23,040)**	125,346
Finance costs	*5*	**(5,205)**	(1,561)
(LOSS)/PROFIT BEFORE TAX	*6*	**(28,245)**	123,785
Income tax	*7*	**252**	(36,472)
(LOSS)/PROFIT AND TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(27,993)**	87,313
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*8*		
– Basic (RMB)		**(0.03)**	0.09
– Diluted (RMB)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Note	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**99,805**	103,010
Prepaid land lease payments		**35,123**	35,175
Total non-current assets		**134,928**	138,185
CURRENT ASSETS			
Inventories		**48,970**	32,417
Trade receivables	*9*	**26,707**	62,283
Prepayments, deposits and other receivables		**21,109**	38,092
Value added tax recoverable		**1,048**	1,675
Tax recoverable		**2,964**	–
Pledged deposits		**3,013**	5,546
Cash and bank balances		**1,180,385**	1,173,494
Total current assets		**1,284,196**	1,313,507
CURRENT LIABILITIES			
Trade and bills payables	*10*	**24,194**	35,116
Deposits received, other payables and accruals		**29,533**	32,350
Interest-bearing bank borrowings	*11*	**153,670**	142,000
Amount due to a director	*14*	**47,003**	33,440
Tax payable		**–**	355
Convertible notes	*12*	**66,163**	79,946
Warrants	*12*	**818**	3,019
Total current liabilities		**321,381**	326,226
NET CURRENT ASSETS		**962,815**	987,281
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,097,743**	1,125,466
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,072**	3,071
NET ASSETS		**1,094,671**	1,122,395
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*13*	**67,258**	67,258
Reserves		**1,027,413**	1,055,137
TOTAL EQUITY		**1,094,671**	1,122,395

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company									
		Reserves								
	Issued capital	Share premium	Contributed surplus	Statutory surplus find	Exchange fluctuation reserve	Capital redemption reserve	Share option reserve	Retained profits	Total reserves	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013 (audited)	67,466	353,205	141,376	87,576	155	316	7,259	399,250	989,137	1,056,603
Profit for the period and total other comprehensive income for the period	–	–	–	–	–	–	–	87,313	87,313	87,313
Repurchase and cancellation of shares	(208)	(2,270)	–	–	–	208	–	(208)	(2,270)	(2,478)
Equity-settled option arrangements	–	–	–	–	–	–	1,417	–	1,417	1,417
Transfer upon forfeiture of share options	–	–	–	–	–	–	(4,503)	4,503	–	–
Transfer to statutory surplus fund	–	–	–	9,345	–	–	–	(9,345)	–	–
At 30 June 2013 (unaudited)	67,258	350,935	141,376	96,921	155	524	4,173	481,513	1,075,597	1,142,855

For the six months ended 30 June 2014

	Attributable to owners of the Company									
		Reserves								
	Issued capital	**Share premium**	**Contributed surplus**	**Statutory surplus find**	**Exchange fluctuation reserve**	**Capital redemption reserve**	**Share option reserve**	**Retained profits**	**Total reserves**	**Total equity**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2014 (audited)	67,258	350,935	141,376	95,478	155	524	3,770	462,899	1,055,137	1,122,395
Loss for the period and total other comprehensive expense for the period	–	–	–	–	–	–	–	(27,993)	(27,993)	(27,993)
Equity-settled option arrangements	–	–	–	–	–	–	269	–	269	269
Transfer upon forfeiture of share options	–	–	–	–	–	–	(1,801)	1,801	–	–
At 30 June 2014 (unaudited)	67,258	350,935	141,376	95,478	155	524	2,238	436,707	1,027,413	1,094,671

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, Jiangnan Town, Licheng District, Quanzhou City, 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 "Listing Rules").

The Group has adopted the following new IFRSs which are effective for the Group's financial year beginning on 1 January 2014.

- Amendments to IFRS10, *Consolidated financial statements*, IFRS12, *Disclosure of interests in other entities* and IAS27, *Investment entities*
- Amendments to IAS32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC21, *Levies*

These developments have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 loss before tax.

The adjusted loss before tax is measured consistently with the Group's loss 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 2014

	Boree Products	Baofeng Products	Brand Licensee Business	OEM	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue					
Sales to external customers	3,832	3	14	89,379	93,228
Segment results	(8,242)	(4)	(177)	10,869	2,446
Reconciliation:					
Interest income					2,421
Other unallocated income and gains					2,967
Corporate and other unallocated expenses					(20,046)
Fair value loss on financial liabilities at fair value through profit or loss					(10,828)
Finance costs					(5,205)
Loss before tax					(28,245)

3. OPERATING SEGMENT INFORMATION *(continued)*

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	219,118	90,297	12,554	239,659	561,628
Segment results	73,047	30,447	(3,458)	43,983	144,019
Reconciliation:					
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					(1,561)
Profit before tax					123,785

Geographical Information

Revenue from external customers

	Six months ended 30 June **2014** ***RMB'000*** **(unaudited)**	2013 *RMB'000* (unaudited)
United States of America	**80,717**	125,199
The PRC (principal place of operations)	**7,267**	430,355
South America	**1,664**	2,011
Europe	**1,198**	1,112
South East Asia	**469**	884
Other countries	**1,913**	2,067
	93,228	561,628

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	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Manufacture and sale of goods	**93,228**	561,628
Other income and gains		
Interest income	**2,421**	2,090
Rental income	**125**	90
Subsidy income	**548**	304
Others	**2,294**	54
	5,388	2,538

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	**5,205**	1,561

6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**80,236**	378,752
Depreciation*	**4,941**	3,974
Amortisation of prepaid land lease payments	**52**	413
Minimum lease payments under operating leases in respect of land and buildings*	**4,103**	3,686
Employee benefit expenses* (including directors' remuneration)		
Wages and salaries	**23,748**	55,723
Equity-settled share option expense	**269**	1,417
Staff welfare	**875**	3,153
Pension scheme contributions	**1,222**	4,926
	26,114	65,219
Loss on disposal of items of property, plant and equipment	**3**	161
Research and development costs**	**1,037**	1,863

* The cost of inventories sold for the Period includes approximately RMB7,704,699 (2013: RMB42,075,000) 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 (2013: 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	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	**146**	33,536
Under provision in prior years	**1,037**	1,674
Deferred – PRC	**(1,435)**	1,262
Total tax (credit)/charge for the period	**(252)**	36,472

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the consolidated loss for the Period attributable to owners of the Company of approximately RMB27,993,000 (2013: Profit of RMB87,313,000) and the weighted average number of ordinary shares of 1,013,720,833 (2013: the number of ordinary shares of 1,016,145,695) in issue during the Period.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2014 and 30 June 2013 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.

9. 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 2014	31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**11,855**	26,243
3 to 6 months	**4,483**	18,386
Over 6 months	**10,369**	17,654
	26,707	62,283

10. 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 2014	31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**21,716**	24,747
3 to 6 months	**2,475**	10,369
Over 6 months	**3**	–
	24,194	35,116

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms. The bills payables of RMB10,042,300 (31 December 2013: RMB17,818,000) were secured by the pledge of the Group's time deposits amounting to RMB3,012,690 as at 30 June 2014 (31 December 2013: RMB5,546,000).

11. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Current		
Bank loans – unsecured	**76,670**	–
Bank loans – secured	**77,000**	142,000
	153,670	142,000
Analysed into:		
Bank loans repayable within one year	**153,670**	142,000

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

Six months ended 30 June 2014	6% per annum
Year ended 31 December 2013	5.36% – 6.000% per annum

12. 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. (see "Stock Borrowing" below).

12. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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. 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 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.

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.

12. 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 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% 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 at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statement.

During the period ended 30 June 2014, 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 (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).

12. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Warrants *(continued)*

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.

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.

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 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.

12. CONVERTIBLE NOTES AND WARRANTS *(continued)*

Stock Borrowing *(continued)*

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 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.

12. CONVERTIBLE NOTES AND WARRANTS *(continued)*

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

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

	Convertible Notes *RMB'000*	**Warrants** *RMB'000*	**Total** *RMB'000*
Fair value at 1 January 2013	146,133	10,337	156,470
Repayment during the year	(56,389)	–	(56,389)
Fair value gain credited to income statement during the year	(9,798)	(7,318)	(17,116)
Fair value at 31 December 2013	79,946	3,019	82,965
Repayment during the period	(26,812)	–	(26,812)
Fair value loss charged/(gain credited) to income statement during the period	13,029	(2,201)	10,828
Fair value at 30 June 2014	66,163	818	66,981

12. 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$)	0.36
Principal amount (HK$'000)	64,000
Coupon rate (%)	7.000
Conversion price (HK$)	1.270
Volatility (%)	25.446 – 43.947
Risk-free rate (% per annum)	0.084 – 0.119
Expected Life (years)	0.23 – 0.98
Expected Dividend Yield (%)	0

Warrants

Stock price (HK$)	0.360
Exercise price (HK$)	1.490
Volatility (%)	46.29
Risk-free Rate (% per annum)	0.940
Expected Life (years)	3.48
Expected Dividend Yield (%)	0

13. 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*
Authorised:			
At 1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2013	1,017,020,833	10,170	67,466
Repurchase and cancellation of shares	(3,300,000)	(33)	(208)
At 31 December 2013, 1 January 2014 and 30 June 2014	1,013,720,833	10,137	67,258

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**680**	867
Equity-settled share option expense	**–**	549
Pension scheme contributions	**8**	16
	688	1,432

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Amount due to a director	**47,003**	33,440

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group changed its distribution model to cooperates with national great retail brand chain instead of several single regional distributions. The sales and gross profits of the Group were inevitably influenced within the adjustment period. For the six months ended 30 June 2014, the revenue of the Group amounted to approximately RMB93.2 million, representing an decrease of approximately 83.4% over the corresponding period of 2013. With the labor and raw material cost increased by the reason of rising inflation, the gross profit margin of the Group for the six months ended 30 June 2014 decreased by 18.6% to 13.9% (2013: 32.6%).

During the period, the fair value loss of convertible notes and warrants at fair value through profit or loss was recognized in an amount of approximately RMB10.8 million (2013: fair value gain approximately RMB13.7 million). As a result, the net loss of the group for the period amounted to approximately 27.9 million.

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2014	2013	Decrease
	RMB'000	*RMB'000*	*% change*
	(unaudited)	(unaudited)	
Revenue (Total)	**93,228**	561,628	83.4%
Revenue (Boree Products)	**3,832**	219,118	98.3%
Revenue (Baofeng Products)	**3**	90,297	99.9%
Revenue (Brand Licensee business)	**14**	12,554	99.9%
Revenue (OEM business)	**89,379**	239,659	62.7%

For the Period under review, the revenue of the Group decreased by 83.4% to approximately RMB93,228,000 as compared with that of the corresponding period last year. Revenue from Boree and Baofeng branded products decrease by 98.3% to approximately RMB3,832,000 and 99.9% to approximately RMB3,000 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 62.7% as compared with that of the corresponding period last year. During the Period, the Brand Licensee business contributed approximately RMB14,000 to the revenue of the Group.

Selling and Distribution Costs

During the Period, selling and distribution costs decreased by 72.9% to approximately RMB10,546,000 as compared with that of the corresponding period last year (2013: RMB38,857,000), which accounted for 11.3% (2013: 6.9%) of the Group's revenue. The decrease was consistent with the decrease in Group's revenue.

General and Administrative Expenses

General and administrative expenses recorded a decrease of 42.7% to approximately RMB19,914,000 for the six months ended 30 June 2014 (2013: RMB34,723,000) as compared with that of the corresponding period last year, which accounted for 21.4% (2013: 6.2%) 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 RMB28.0 million (2013: RMB130.7 million). As at 30 June 2014, cash and bank balances were approximately RMB1,180.4 million, representing a net increase of 0.59% as compared with approximately RMB1,173.50 million as at 31 December 2013. The interest-bearing bank borrowings of the Group as at 30 June 2014 was RMB153.7 million (31 December 2013: approximately RMB142.0 million). All bank loans were repayable within one year.

Pledge of Assets

As at 30 June 2014, the Group secured its bills payables by the pledge of its time deposits amounting to approximately RMB3,013,000 (31 December 2013: RMB5,546,000).

Contingent Liabilities

As at 30 June 2014 and 31 December 2013, the Group had no material contingent liabilities.

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.

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group was 22.7% (as at 31 December 2013: 15.4%). 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 2014, the Group had a total of approximately 900 employees (as at 31 December 2013: approximately 1,300 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 2014 is set out as follows:

Nature	**Amount raised**	**Amount utilised**
	RMB'000	*RMB'000*
To increase production capacity	135,683	79,804
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	9,056
To establish flagship shops and showrooms	19,383	3,981
To strengthen the distribution resource planning system	19,383	4,351
General working capital	38,767	38,767
Total:	387,666	232,876

BUSINESS REVIEW AND FUTURE PROSPECTS

Because Chinese retail industry is still facing severe challenge and sales was influenced by adjust sales strategy, the revenue of the Group's own branded business recorded a significant decline to approximately RMB3.8 million in the period of 2014. And the performance of brand licensee business in the period was also below our expectation and unsatisfactory.

During the period, the revenue of OEM business amounted to approximately RMB89.4 million (2013: RMB239 million), representing a decrease of 62.8% as compared with that of the corresponding period last year. Due to the fierce competition of global OEM market and the Group's OEM business competition decrease by the reason of the rising labor and raw material cost.

Due to the current uncertain economic outlook, we expected disadvantageous operating environment would continuously affect businesses of the Group. Looking forward the future, the Group will be committed to depend on professional management skills and enrich industry experience to continual readjust marketing method and further take a series of cost saving plans for expecting to bring the highest returns for shareholders.

Except for the existing business, the Group also prudently looks for other investment opportunities. In 30 June 2014, the Group entered the Memorandum of Understanding with an independent third party in respect of the possible acquisition of 15% of the entire equity interest in Ideal Stage Limited; terms of the possible acquisition is still being discussed. For more details, please refer to the announcement of the Group dated 30 June 2014.

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, Ms. An Na and Mr. Lee Keung did not attend the annual general meeting held on 10 June 2014 due to their business commitments.

Code Provision E.1.2. provides that the chairman 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 10 June 2014.

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.

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 chairman 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

On 25 April 2014, Mr. Yu Wai Cheong retired and Mr. Kwok Chi Yin was appointed as the company secretary and authorized representative of the Company for the service of process and notices under the Company Ordinance.

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, 29 August 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.