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 2014

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014, together with the comparative figures for 2013 and the relevant explanatory notes as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	4	**196,773**	624,122
Cost of sales		**(177,720)**	(437,185)
GROSS PROFIT		**19,053**	186,937
Other net income and gains	4	**13,050**	5,786
Selling and distribution expenses		**(13,812)**	(48,748)
General and administrative expenses		**(35,936)**	(61,613)
Finance costs	5	**(8,549)**	(4,621)
Fair value (loss)/gain on financial liabilities at fair value through profit or loss	13	**(4,019)**	17,116
(LOSS)/PROFIT BEFORE TAX	6	**(30,213)**	94,857
Income tax expense	7	**(939)**	(26,979)
(LOSS)/PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(31,152)**	67,878
(LOSS)/EARNINGS PER SHARE	9		
– Basic (RMB)		**(0.03)**	0.07
– Diluted (RMB)		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**95,214**	103,010
Prepaid lease payments		**34,330**	35,175
		129,544	138,185
CURRENT ASSETS			
Inventories		**30,967**	32,417
Trade and bills receivables	*10*	**41,533**	62,283
Prepayments, deposits and other receivables		**14,034**	39,767
Income tax recoverable		**2,151**	–
Pledged deposits		**5,696**	5,546
Cash and bank balances		**1,148,881**	1,173,494
		1,243,262	1,313,507
CURRENT LIABILITIES			
Trade and bills payables	*11*	**48,297**	35,116
Deposits received, other payables and accruals		**51,051**	32,350
Interest-bearing bank borrowings	*12*	**121,884**	142,000
Convertible notes	*13*	**53,123**	79,946
Warrants	*13*	**4,137**	3,019
Amount due to a director		**–**	33,440
Income tax payable		**–**	355
		278,492	326,226
NET CURRENT ASSETS		**964,770**	987,281
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,094,314**	1,125,466
NON-CURRENT LIABILITY			
Deferred tax liability		**3,071**	3,071
NET ASSETS		**1,091,243**	1,122,395
EQUITY			
Share capital		**67,258**	67,258
Reserves		**1,023,985**	1,055,137
TOTAL EQUITY		**1,091,243**	1,122,395

NOTES:

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 Room 504, 5/F, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, 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 sale of slippers, sandals and casual footwear. There were no significant changes in the nature of the Group's principal activities during the year.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC*-Int 21	Levies

* IFRIC represents the International Financial Reporting Standards Interpretation Committee

The application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial results.

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, sandals and casual footwear ("Boree Products");

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

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

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

CODM 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 result, which is a measure of adjusted result before tax.

The segment profit or loss represents the profit earned by or loss from each segment without allocation of interest income, other unallocated net income and gains, fair value (loss)/gain on financial liabilities at fair value through profit or loss, finance costs as well as corporate and other unallocated expenses. Segment assets exclude property, plant and equipment, prepaid lease payments, raw materials, work in progress, prepayments, deposits and other receivables, income tax recoverable, pledged deposits and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude trade and bills payables, certain other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, amount due to a director and income tax payable as these liabilities are managed on a group basis.

3. **SEGMENT INFORMATION** (continued)

Year ended 31 December 2014

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licensee Business *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	**51,488**	**847**	**779**	**143,659**	**196,773**
Segment results	**(16,832)**	**(438)**	**(290)**	**18,419**	**859**
Reconciliation:					
Interest income					**4,528**
Other unallocated net income and gains					**8,522**
Corporate and other unallocated expenses					**(31,554)**
Fair value loss on financial liabilities at fair value through profit or loss					**(4,019)**
Finance costs					**(8,549)**
Loss before tax					**(30,213)**
Segment assets	**2,318**	**–**	**–**	**51,045**	**53,363**
Reconciliation:					
Corporate and other unallocated assets					**1,319,443**
Total assets					**1,372,806**
Segment liabilities	**850**	**850**	**–**	**15,777**	**17,477**
Reconciliation:					
Corporate and other unallocated liabilities					**264,086**
Total liabilities					**281,563**

3. **SEGMENT INFORMATION** (continued)

Year ended 31 December 2013

	Boree Products *RMB'000*	Baofeng Products *RMB'000*	Brand Licensee Business *RMB'000*	OEM *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	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 net 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)

Geographical information

(a) Revenue from external customers

	2014	2013
	RMB'000	*RMB'000*
PRC (principal place of operations)	**62,064**	435,240
United States of America	**122,753**	170,070
South America	**4,400**	3,634
Europe	**4,254**	1,747
South East Asia	**1,883**	8,073
Other countries	**1,419**	5,358
	196,773	624,122

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

(b) Non-current assets

	2014	2013
	RMB'000	*RMB'000*
PRC (principal place of operations)	**129,498**	138,114

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:

	2014	2013
	RMB'000	*RMB'000*
Customer A	**75,043**	71,721

4. REVENUE, OTHER NET 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 net income and gains is as follows:

	2014	2013
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**196,773**	624,122
Other net income and gains		
Interest income	**4,528**	4,141
Sales of scrap material	**2,239**	450
Sales of semi-products	**1,076**	–
Rental income	**322**	243
Subsidy income*	**4,323**	905
Others	**562**	47
	13,050	5,786

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

5. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest on bank loans repayable within five years	**8,549**	4,621

6. (LOSS)/PROFIT BEFORE TAX

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

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories sold*	**177,309**	429,380
Depreciation*	**10,339**	9,558
Amortisation of prepaid lease payments	**845**	845
Minimum lease payments under operating leases in respect of land and buildings*	**7,671**	7,367
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**46,093**	70,537
Equity-settled share option expense	**–**	392
Staff welfare	**853**	2,255
Contributions to retirement benefits schemes	**4,544**	8,823
	51,490	82,007
Auditors' remuneration	**1,590**	1,504
(Reversal of impairment loss)/impairment loss on trade receivables	**(19)**	1,162
Write-down of inventories	**411**	7,805
Loss on disposal of items of property, plant and equipment	**698**	237
Foreign exchange differences, net	**429**	1,446
Research and development costs**	**2,733**	2,145

* *The cost of inventories sold for the year ended 31 December 2014 includes approximately RMB31,876,000 (2013: RMB50,861,000) 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" 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 (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.

	2014	2013
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**–**	25,305
Under-provision in prior years	**939**	1,674
Total tax charge for the year	**939**	26,979

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2014 and 2013 and since the end of the reporting period.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the year attributable to owners of the Company and the weighted average number of ordinary shares of 1,013,720,833 (2013: 1,014,923,299) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2014 included the 1,013,720,833 ordinary shares in issue.

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.

No adjustment has been made to the basic (loss)/earnings per share amount presented for the years ended 31 December 2014 and 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 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 (loss)/earnings per share.

10. TRADE AND BILLS 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 and bills receivables, net of allowance for doubtful debts as at the end of the reporting period, based on the invoice date, is as follows:

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**28,969**	26,243
4 to 6 months	**6,176**	18,386
7 to 12 months	**6,388**	17,654
	41,533	62,283

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:

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**33,930**	24,747
Over 3 months	**14,367**	10,369
	48,297	35,116

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2013: two to six months). The bills payable of RMB18,986,000 (2013: RMB17,818,000) were secured by the Group's pledged deposits amounting to RMB5,696,000 as at 31 December 2014 (2013: RMB5,546,000).

12. INTEREST-BEARING BANK BORROWINGS

	2014	2013
	RMB'000	*RMB'000*
Secured bank loans repayable within one year	**121,884**	142,000

(a) At 31 December 2014 and 2013, the bank loans were denominated in RMB and bear fixed interest rates ranging from:

Year ended 31 December 2014	5.600% – 7.950% per annum
Year ended 31 December 2013	5.360% – 6.000% per annum

(b) At 31 December 2014, the secured bank loans of the Group were secured by a pledge of the Group's buildings and land use right, amounting to approximately RMB22,210,000 (2013: RMB25,475,000) and approximately RMB35,146,000 (2013: RMB5,223,000) respectively. In addition, the bank loans were guaranteed by two independent third parties.

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).

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes

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

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

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

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

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

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

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes (continued)

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 shares 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 the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the statement of profit or loss.

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.

During the year ended 31 December 2014, the Group repaid part of the principal amount of Convertible Notes of RMB25,315,000 and accrued interest of RMB4,409,000 by cash up to 21 June 2014. Subsequent to 21 June 2014, the Group did not make any payment of principals and interests (the "Non-Payments") in accordance with the payment schedule as stated in the Subscription Agreement as the Subscriber was negotiating with three independent third parties (the "Transferees") to dispose (the "Disposal") of the Convertible Notes in the aggregate principal amount of HK$64,000,000 representing the entire outstanding principal amount of the Convertible Notes.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes (continued)

The terms and conditions of the Disposal was finally concluded and the agreement (the "Disposal Agreement") was entered amongst the Subscriber and the Transferees on 29 October 2014. The Transferees agreed that the Non-Payments have not constituted any breach of the terms and conditions as stated in Subscription Agreement and waived the Group's obligation to make payment of the Non-Payments and the remaining installment until the Maturity Date.

Warrants

The Warrants initially 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 purchase 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 years ended 31 December 2013 and 2014.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants (continued)

According to the Disposal Agreement, the Warrants were also transferred from the Subscriber to the Transferees on 29 October 2014.

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.

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.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing (continued)

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 to 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.

As details set out in the Company's announcement dated 19 December 2014, 32,000,000 of the Company's ordinary shares had been transferred by the Subscriber to the Stock Lender and the transaction set out in the Call and Put Option Confirmation was terminated.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

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

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 1 January 2013	146,133	10,337	156,470
The 2nd to 5th 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
The 6th to 7th repayment	(29,724)	–	(29,724)
Fair value loss charged to profit or loss during the year	2,901	1,118	4,019
Fair value at 31 December 2014	53,123	4,137	57,260

As at 31 December 2014 and 2013, the fair values of the Convertible Notes and the Warrants were based on the valuations performed by Asset Appraisal Limited, an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	2014	2013
Convertible Notes		
Stock price (HK$)	**0.560**	0.530
Principal amount (HK$'000)	**64,000**	96,000
Coupon rate (%)	**7.000**	7.000
Conversion price (HK$)	**1.270**	1.270
Volatility (%)	**83.600**	37.187–62.790
Risk-free rate (% per annum)	**0.060**	0.101–0.258
Expected life (years)	**0.470**	0.220–1.470
Expected dividend yield (%)	**0**	0
Warrants		
Stock price (HK$)	**0.560**	0.530
Exercise price (HK$)	**1.490**	1.490
Volatility (%)	**59.310**	48.370
Risk-free rate (% per annum)	**0.980**	1.030
Expected life (years)	**2.975**	3.975
Expected dividend yield (%)	**0**	0

MANAGEMENT DISCUSSION AND ANALYSIS

2014 is a difficult and challenging year for the Group. The slowdown of economic growth in the PRC; buying habit of Chinese changed to purchase luxury goods and national brands, and online purchase; the decline of overseas economy and the high inflation rate in the PRC all have great impacts on the performance of the Group. The Group recorded a significant decline of revenue, gross profit and net profit for the year ended 31 December 2014, of which the revenue dropped by 68.5% to approximately RMB196.8 million from last year (2013: approximately RMB624.1 million).

As a result of the increase of labor and raw material costs under high inflation environment in the PRC, the gross profit margin of the Group for the year ended 31 December 2014 decreased to approximately 9.7% from 2013 of approximately 30.0%.

During the year, the fair value loss on convertible notes and warrants at fair value through profit or loss was approximately RMB4.0 million (2013: fair value gain of approximately RMB17.1 million). As a result, the Group recorded a net loss of approximately RMB31.2 million for the year ended 31 December 2014. (2013: net profit of approximately RMB67.9 million).

BUSINESS REVIEW

Revenue by Product Category

	2014	2013	Decrease
	RMB'000	*RMB'000*	*%*
Revenue (Boree Products)	**51,488**	224,470	(77.1%)
Revenue (Baofeng Products)	**847**	90,888	(99.1%)
Revenue (Brand Licensee Business)	**779**	13,928	(94.4%)
Revenue (OEM Business)	**143,659**	294,836	(51.3%)
Revenue (Total)	**196,773**	624,122	(68.5%)

Own Branded Business

The depressed economic growth of the PRC and the change of local customers' shopping habit led to an adverse operating environment for the retail market in the PRC. Except for several large size footwear manufacturers in the PRC, it is a difficult time for the Group and the footwear manufacturing industry. 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 RMB51.5 million (2013: approximately RMB224.5 million), representing a 77.1% decrease from the previous year. On the other hand, the Baofeng brand, focusing on the mass market, suffered a substantial decline in sales during the year as many customers from the mass market in the PRC changed to online purchase. Revenue generated from the Baofeng brand amounted to approximately RMB0.8 million in 2014, representing a decrease of 99.1% from approximately RMB90.9 million in 2013.

Brand Licensee Business

Due to the serious piracy problem in the PRC, the performance of our brand licensee business was beyond our expectation, which only generated revenue of approximately RMB0.8 million for the year (2013: approximately RMB13.9 million) from the footwear sales of authorized brand "SpongeBob" and "NBA". The performance in the branded licensee business could not meet our expectation and not in proportion to the cost injected. As the Group expected the piracy problem will not be solved in the PRC in the foreseeable future, the Group do not intend to extend the franchise license when expired.

OEM Business

During the year, the sales of Group's OEM business declined by RMB151.1 million or 51.3% to approximately RMB143.7 million as compared with last year (2013: approximately RMB294.8 million). The labour cost and the raw material cost are the major production cost of footwear. Following the high inflation rate and the appreciation of RMB in the PRC in the past few years, the labour cost and the raw material cost increased a lot. Therefore, the competitiveness of footwear in the PRC decreased when compared with those emerging countries, such as India, resulting in the poor performance of the OEM business during the year.

FINANCIAL REVIEW

Selling and Distribution Expenses

During the year, selling and distribution expenses decreased by 71.7% to approximately RMB13.8 million as compared with that of last year (2013: approximately RMB48.7 million), which accounted for 7.0% (2013: 7.8%) 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 41.7% to approximately RMB35.9 million for the year ended 31 December 2014 as compared with that of last year (2013: approximately RMB61.6 million), which accounted for 18.3% (2013: 9.9%) of the Group's revenue. As the Group adopted a series of cost saving plans in 2014, the general and administrative expenses decreased by approximately RMB25.7 million.

Liquidity and Financial Resources

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB70.6 million (2013: approximately RMB75.0 million). As at 31 December 2014, cash and bank balances were approximately RMB1,148.9 million, maintaining a stable level as compared with the cash and bank balances as at the end of last year (2013: approximately RMB1,173.5 million). In the recent years, China implemented a series of economic austerity measures, including adjusting the bank deposit reserve ratio, in order to slow down its overhead economy. In order to maintain a good relationship with banks and have a more favorable term of facilities in the future, the Group maintained the bank borrowings at a certain level even there were substantive cash and bank balances in the Group. As at 31 December 2014, the interest-bearing bank borrowings of the Group were approximately RMB121.9 million (2013: approximately RMB142.0 million). All bank loans were repayable within one year.

Pledge of Assets

As at 31 December 2014, the bills payables were secured by the Group's pledged deposits amounting to approximately RMB5.7 million (2013: approximately RMB5.5 million). The bank borrowings of the Group were also secured by a pledge of the Group's buildings and land use right with a net carrying value of approximately RMB22.2 million (2013: approximately RMB25.5 million) and approximately RMB35.1 million (2013: approximately RMB5.2 million) respectively.

Contingent Liabilities

As at 31 December 2014 and 2013, there were 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. The management of the Group monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

Gearing Ratio

As at 31 December 2014, the gearing ratio of the Group was 20.3% (2013: 22.5%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refers to the total liabilities minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 31 December 2014, the Group had a total of approximately 970 employees (2013: approximately 1,000 employees).

Use of Net Proceeds from the Share Offering

As at 31 December 2014, the Company had unutilised net proceeds from the IPO in the amount of approximately RMB147.2 million, representing approximately 38% of the total net proceeds from the IPO (the "Unutilised Net Proceeds"). In light of current market conditions of footwear industry in the PRC, the Company believes that the use of the Unutilised Net Proceeds under the original intended purpose may no longer meets the Group's imminent business development needs. In order to maximise the benefits of the Company and its shareholders, the Company may change the usage of the Unutilised Net Proceeds from the original intended purposes to working capital and other general corporate purposes of the Group. If this happen, further announcements will be made by the Company as and when appropriate in compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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 31 December 2014 is set out as follows:

Nature	**Amount raised**	**Amount utilised**
	RMB'000	*RMB'000*
To increase production capacity	135,683	86,128
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	10,238
To establish flagship shops and showrooms	19,383	4,090
To strengthen the distribution resource planning system	19,383	4,351
General working capital	38,767	38,767
Total:	387,666	240,491

FUTURE PROSPECTS

In view of the uncertainties in the PRC and global economy and high inflation rate in the PRC, we expect the adverse operating environment will continue affect the performance of the Group in 2015.

To cope with the downturn of the industry and the change of customers' buying habit to online purchase, the Group adjusted its distribution channel with those national retail chains instead of single regional distributors in order to increase the penetration rate of the products of the Group. The Group would focus on developing the Online to Offline ("O2O") business model for the sales and distribution of the products of the Group in 2015.

Besides the sales model, the Group will put significant resources into the research and development of new materials to be used in the manufacture of footwear in terms of wear-resistance, portability, air permeability and antibacterial property, which will also help to reduce the cost effectively. The Group will selectively develop new types of materials which will become the new growth drivers of the Group.

Moreover, the Group will conduct further development in the research and application of new technologies, such as hi-tech disinfection and deodorization chips for shoes, which can be widely used in sneakers and specialty footwear given its proven effect of healthcare and treatment through effectively eliminating fungus within shoes and prevention of illnesses such as beriberi and athlete's foot. The Group will vigorously develop wearable devices business through consolidation and acquisition of proprietary technology, develop a range of wearable chips for shoes (such as those for sports and health) as the carriers of wearable devices, and introduce new series of multi-function products. On 24 November 2014, the Company entered into of a letter of intent with Bluestone Technologies (Cayman) Limited ("Bluestone"), a third party independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the Listing Rules), pursuant to which, Bluestone agrees to transfer the proprietary technology of graphene-based disinfection devices and pressure-sensitive sensors for shoes to the Company. The terms of the acquisition are still under discussion. For details, please refer to the Group's announcement dated 24 November 2014.

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 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, save for the deviation discussed below. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

Code Provision A.2.1. stipulates that the roles of the Chairman and Chief Executive Officer should be separated 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 balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises 2 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors and therefore has a strong independence element in its composition.

Code Provision A.6.7. stipulates 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. stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman should also invite the chairpersons of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairperson of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. Due to other business commitments, the chairpersons of remuneration committee 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 the Directors. The Company made specific enquiries of all the Directors who confirmed that they have complied with the required standards set out in the Model Code during the financial year.

AUDIT COMMITTEE

The audit committee was established by the Board 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. During the financial year, the audit committee comprised three independent non-executive Directors, namely Mr. Lee Keung, Professor Bai Changhong and Ms. An Na, and Mr. Lee Keung was the chairperson of the audit committee. On 3 February 2015, Mr. Lee Keung and Professor Bai Changhong were resigned as chairperson and member of audit committee, who were replaced by Mr. Chen Shaohua and Professor Zhao Jinbao respectively on the same day. The annual results of the Group for the year ended 31 December 2014 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

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 ANNOUNCEMENT 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 2015

As at the date of this announcement, the executive Directors of the Company are Mr. Zheng Jingdong and Mr. Leung Tsz Chung; the non-executive Directors of the Company are Mr. Sze Ching Bor and Mr. Chan Chak Chak Daniel; and the independent non-executive Directors of the Company are Ms. An Na, Mr. Chen Shaohua and Professor Zhao Jinbao.