**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 2015

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces 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 2015 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2014 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 2015*

| | Notes | Six months ended 30 June **2015** *RMB'000* (unaudited) | 2014 *RMB'000* (unaudited) |
|---|---|---|---|
| **REVENUE** | *4* | **105,754** | 93,228 |
| Cost of sales | | **(75,450)** | (80,236) |
| **GROSS PROFIT** | | **30,304** | 12,992 |
| Other net income and gains | *4* | **7,814** | 5,388 |
| Selling and distribution expenses | | **(7,087)** | (10,546) |
| General and administrative expenses | | **(12,979)** | (20,046) |
| Finance costs | *5* | **(4,691)** | (5,205) |
| Fair value losses on financial liabilities at fair value through profit or loss | *12* | **(32,342)** | (10,828) |
| **LOSS BEFORE TAX** | *6* | **(18,981)** | (28,245) |
| Income tax (expense)/credit | *7* | **(6,034)** | 252 |
| **LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **(25,015)** | (27,993) |
| **LOSS PER SHARE** | *8* | | |
| – Basic (RMB) | | **(0.02)** | (0.03) |
| – Diluted (RMB) | | **N/A** | N/A |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 30 June 2015*

| | *Notes* | **30 June 2015** **RMB'000** **(unaudited)** | 31 December 2014 *RMB'000* (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **90,842** | 95,214 |
| Prepaid lease payments | | **33,908** | 34,330 |
| | | **124,750** | 129,544 |
| **CURRENT ASSETS** | | | |
| Inventories | | **18,566** | 30,967 |
| Trade and bills receivables | *9* | **22,291** | 41,533 |
| Prepayments, deposits and other receivables | | **23,423** | 14,034 |
| Income tax recoverable | | **–** | 2,151 |
| Pledged deposits | | **8,224** | 5,696 |
| Cash and bank balances | | **1,167,765** | 1,148,881 |
| | | **1,240,269** | 1,243,262 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *10* | **40,056** | 48,297 |
| Deposits received, other payables and accruals | | **33,909** | 51,051 |
| Interest-bearing bank borrowings | *11* | **123,855** | 121,884 |
| Convertible notes | *12* | **–** | 53,123 |
| Warrants | *12* | **40,481** | 4,137 |
| Income tax payable | | **3,418** | – |
| | | **241,719** | 278,492 |
| **NET CURRENT ASSETS** | | **998,550** | 964,770 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,123,300** | 1,094,314 |
| **NON-CURRENT LIABILITY** | | | |
| Deferred tax liability | | **3,071** | 3,071 |
| **NET ASSETS** | | **1,120,229** | 1,091,243 |
| **EQUITY** | | | |
| Share capital | *13* | **70,555** | 67,258 |
| Reserves | | **1,049,674** | 1,023,985 |
| **TOTAL EQUITY** | | **1,120,229** | 1,091,243 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2014*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | |
| | Share capital | Share premium | Contributed surplus | Statutory surplus fund | 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 and total comprehensive expense for the period | – | – | – | – | – | – | – | (27,993) | (27,993) | (27,993) |
| Equity-settled share 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 |

*For the six months ended 30 June 2015*

| | **Attributable to owners of the Company** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Reserves** | | | | | | | | |
| | **Share capital** | **Share premium** | **Contributed surplus** | **Statutory surplus fund** | **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 2015 (audited) | 67,258 | 350,935 | 141,376 | 95,478 | 155 | 524 | 2,879 | 432,638 | 1,023,985 | 1,091,243 |
| Issue of shares upon conversion of convertible notes | 3,297 | 50,704 | – | – | – | – | – | – | 50,704 | 54,001 |
| Loss and total comprehensive expense for the period | – | – | – | – | – | – | – | (25,015) | (25,015) | (25,015) |
| Equity-settled share option arrangements | – | – | – | – | – | – | (1,730) | 1,730 | – | – |
| Transfer to statutory surplus fund | – | – | – | 909 | – | – | – | (909) | – | – |
| At 30 June 2015 (unaudited) | 70,555 | 401,639 | 141,376 | 96,387 | 155 | 524 | 1,149 | 408,444 | 1,049,674 | 1,120,229 |

## 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 sales of slippers, sandals and casual footwear. There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of the Directors of the Company, the immediate holding company and the ultimate holding company of the Company is Best Mark International Limited, which was incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Sze Ching Bor.

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the ''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 Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements as detailed below:

The Group has adopted the following amendments to International Financial Reporting Standards (''IFRSs'') which are effective for the Group's financial year beginning on 1 January 2015.

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

These amendments have had no material impact on the contents of this interim financial results.

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

## 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 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 and income tax payable as these liabilities are managed on a group basis.

3. **SEGMENT INFORMATION** *(Continued)*

**Period ended 30 June 2015**

| | 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 | 17,051 | – | – | 88,703 | 105,754 |
| **Segment results** | 7,267 | – | – | 15,950 | 23,217 |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 2,157 |
| Other unallocated net income and gains | | | | | 5,657 |
| Corporate and other unallocated expenses | | | | | (12,979) |
| Fair value loss on financial liabilities at fair value through profit or loss | | | | | (32,342) |
| Finance costs | | | | | (4,691) |
| Loss before tax | | | | | (18,981) |

**As at 30 June 2015**

| | 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 assets** | **14,108** | **–** | **–** | **15,864** | **29,972** |
| *Reconciliation:* | | | | | |
| Corporate and other unallocated assets | | | | | **1,335,047** |
| Total assets | | | | | **1,365,019** |
| **Segment liabilities** | **150** | **150** | **–** | **15,777** | **16,077** |
| *Reconciliation:* | | | | | |
| Corporate and other unallocated liabilities | | | | | **228,713** |
| Total liabilities | | | | | **244,790** |

3. **SEGMENT INFORMATION** *(Continued)*

**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 net 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) |

**As at 31 December 2014**

| | Boree Products | Baofeng Products | Brand Licensee Business | OEM | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) | (audited) | (audited) |
| **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)*

**Geographical Information**

***(a) Revenue from external customers***

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| PRC (principal place of operations) | **18,691** | 7,267 |
| United States of America | **81,153** | 80,717 |
| South America | **1,786** | 1,664 |
| Europe | **2,360** | 1,198 |
| South East Asia | **1,403** | 469 |
| Other countries | **361** | 1,913 |
| | **105,754** | 93,228 |

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

***(b) Non-current assets***

| | **30 June** | 31 December |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| PRC (principal place of operations) | **124,721** | 129,498 |

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

**Information about major customers**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Customer A | **40,722** | 44,145 |
| Customer B | **16,456** | 14,593 |

## 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Revenue** | | |
| Manufacture and sales of goods | **105,754** | 93,228 |
| **Other net income and gains** | | |
| Interest income | **2,157** | 2,421 |
| Sales of scrap material | **1,381** | 776 |
| Rental income | **231** | 125 |
| Subsidy income | **400** | 548 |
| Others | **3,645** | 1,518 |
| | **7,814** | 5,388 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Interest on bank loans repayable within five years | **4,691** | 5,205 |

## 6. LOSS BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Cost of inventories sold* | **75,450** | 80,236 |
| Depreciation* | **4,980** | 4,941 |
| Amortisation of prepaid lease payments | **422** | 52 |
| Minimum lease payments under operating leases in respect of land and buildings* | **3,254** | 4,103 |
| Employee benefit expenses* (including directors' remuneration) | | |
| Wages and salaries | **23,087** | 23,748 |
| Equity-settled share option expense | **–** | 269 |
| Staff welfares | **756** | 875 |
| Contributions to retirement benefits schemes | **1,254** | 1,222 |
| | **25,097** | 26,114 |
| Impairment loss on trade receivables | **18** | 2,659 |
| (Reversal of write down)/write down of inventories | **(6,994)** | 3,081 |
| Loss on disposal of items of property, plant and equipment | **57** | 3 |
| Research and development costs** | **1,319** | 1,037 |

* The cost of inventories sold for the Period includes approximately RMB22,264,000 (2014: RMB22,189,000) 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 (2014: 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 | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Current – PRC | | |
| Charge for the period | **3,610** | 146 |
| Under/(over) provision in prior years | **2,424** | (398) |
| Total tax charge/(credit) for the period | **6,034** | (252) |

## 8. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss for the Period attributable to owners of the Company of approximately RMB25,015,000 (2014: RMB27,993,000) and the weighted average number of ordinary shares of 1,019,312,623 (2014: 1,013,720,833) in issue during the Period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2015 and 30 June 2014 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 loss per share.

## 9. 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 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:

| | **30 June 2015** *RMB'000* **(unaudited)** | 31 December 2014 *RMB'000* (audited) |
|---|---|---|
| Within 3 months | **16,759** | 28,969 |
| 4 to 6 months | **5,293** | 6,176 |
| 7 to 12 months | **239** | 6,388 |
| | **22,291** | 41,533 |

## 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 2015** *RMB'000* **(unaudited)** | 31 December 2014 *RMB'000* (audited) |
|---|---|---|
| Within 3 months | **23,986** | 33,930 |
| Over 3 months | **16,070** | 14,367 |
| | **40,056** | 48,297 |

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (31 December 2014: six months). The bills payables of RMB26,582,000 (31 December 2014: RMB18,986,000) were secured by the Group's pledged deposits amounting to RMB8,224,000 as at 30 June 2015 (31 December 2014: RMB5,696,000).

## 11. INTEREST-BEARING BANK BORROWINGS

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Secured bank loans repayable within one year | **123,855** | 121,884 |

(a) At 30 June 2015 and 31 December 2014, the bank loans were denominated in RMB and bore interest rates ranging from:

| | |
|---|---|
| Six months ended 30 June 2015 | 5.100% – 7.950% per annum |
| Year ended 31 December 2014 | 5.600% – 7.950% per annum |

(b) At 30 June 2015, the secured bank loans of the Group were secured by a pledge of the Group's buildings and land use right, amounting to approximately RMB27,101,000 (31 December 2014: RMB22,210,000) and approximately RMB34,724,000 (31 December 2014: RMB35,146,000) respectively. In addition, the bank loans were guaranteed by two independent third parties.

## 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 (the "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.

### 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 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 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.

## 12. CONVERTIBLE NOTES AND WARRANTS *(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 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 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, 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.

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 had 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.

## 12. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

During the Period, the Group received a total of three conversion notices from all Notes Holders of the Conversion Notes in respect of the exercise of the Conversion Rights attached to the Conversion Notes in the aggregate principal amount of HK$64,000,000 together with aggregate accrued interests of HK$4,400,647 held by the Notes Holders at the Conversion Price of HK$1.27 per share. As a result of this conversion, the Company allotted and issued a total of 53,858,775 shares to the Notes Holders in June 2015 and no Conversion Notes remain outstanding.

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

**Warrants**

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

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

On 7 February 2013, the Company had 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 had 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 had 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.

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

## 12. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

On 13 March 2015, the Company entered into a new warrant subscription agreement (the "New Warrant Subscription Agreement") with two warrant subscribers (the "New Warrant Subscribers") in relation to the issue of a total of 88,000,000 warrants (the "New Warrant") to the New Warrant Subscribers at the issue price of HK$0.07 per New Warrant.

The New Warrants entitle the New Warrant Subscribers to subscribe for 88,000,000 shares (the "New Shares") of initially HK$1.5 per New Share (subject to adjustments in accordance with the terms of the New Warrants) for a period of eighteen months commencing from the date of issue of the New Warrants, i.e. 21 April 2015.

Upon full subscription of the Warrants and New Warrants, a total of 151,691,570 new shares will be issued and the net proceeds upon full subscription are approximately HK$226,900,000 (i.e. RMB178,940,000).

No warrants have been exercised during year ended 31 December 2014 and the Period.

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.

**Valuation of the Convertible Notes, Warrants and New Warrants**

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

| | **Convertible Notes** | **Warrants** | **New Warrants** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Fair value at 1 January 2014 | 79,946 | 3,019 | – | 82,965 |
| Repayment during the year | (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 |
| Fair value at issuance date | – | – | 4,880 | 4,880 |
| Conversion of convertible notes | (54,001) | – | – | (54,001) |
| Fair value loss charged to profit or loss during the Period | 878 | 15,422 | 16,042 | 32,342 |
| Fair value at 30 June 2015 | – | 19,559 | 20,922 | 40,481 |

## 12. CONVERTIBLE NOTES AND WARRANTS *(Continued)*

For the Period, the fair value of Warrants and New Warrants were based on the valuation performed by Asset Appraisal Limited, an independent firm of professional qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| **Convertible Notes** | | |
| Stock price (HK$) | **N/A** | 0.560 |
| Principal amount (HK$'000) | **N/A** | 64,000 |
| Coupon rate (%) | **N/A** | 7.000 |
| Conversion price (HK$) | **N/A** | 1.270 |
| Volatility (%) | **N/A** | 83.600 |
| Risk-free rate (% per annum) | **N/A** | 0.060 |
| Expected life (years) | **N/A** | 0.470 |
| Expected dividend yield (%) | **N/A** | 0 |
| **Warrants** | | |
| Stock price (HK$) | **1.170** | 0.560 |
| Exercise price (HK$) | **1.490** | 1.490 |
| Volatility (%) | **66.569** | 59.310 |
| Risk-free rate (% per annum) | **0.570** | 0.980 |
| Expected life (years) | **2.482** | 2.975 |
| Expected dividend yield (%) | **0** | 0 |
| **New Warrants** | | |
| Stock price (HK$) | **1.170** | N/A |
| Exercise price (HK$) | **1.500** | N/A |
| Volatility (%) | **75.719** | N/A |
| Risk-free rate (% per annum) | **0.240** | N/A |
| Expected life (years) | **1.310** | N/A |
| Expected dividend yield (%) | **0** | N/A |

## 13. SHARE CAPITAL

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

| | **Number of ordinary shares of US$0.01 each** | **Nominal value of ordinary shares** | **Nominal value of ordinary shares** |
|---|---|---|---|
| | | *US$'000* | *RMB'000* |
| **Authorised:** | | | |
| At 1 January 2014, 31 December 2014, 1 January 2015 and 30 June 2015 | 5,000,000,000 | 50,000 | 342,400 |
| **Issued:** | | | |
| At 1 January 2014, 31 December 2014 and 1 January 2015 | 1,013,720,833 | 10,137 | 67,258 |
| Issue of shares upon conversion of convertible notes | 53,858,775 | 539 | 3,297 |
| At 30 June 2015 | 1,067,579,608 | 10,676 | 70,555 |

## 14. RELATED PARTY TRANSACTIONS

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Fees | **–** | – |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,066** | 680 |
| Contributions to retirement benefits schemes | **17** | 8 |
| | **1,083** | 688 |

## MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2015, the Group improved its sales due to the change of its distribution channel to cooperate with national retail chains instead of single regional distributors starting from 2014. The Group recorded an increase in revenue and gross profit for the Period, of which the revenue increased by 13.4% to approximately RMB105.8 million from last corresponding period (2014: RMB93.2 million).

As a result of the improvement of technology to reduce production costs, the gross profit margin of the Group for the Period increased by 106% compared with last corresponding period to 28.7% (2014:13.9%).

During the Period, the fair value loss of financial liabilities at fair value through profit or loss was approximately RMB32.3 million (2014: RMB10.8 million). As a result, the Group recorded a net loss of approximately RMB25.0 million for the Period (2014: RMB28.0 million).

## FINANCIAL REVIEW

### Revenue by Product Category

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2015** | 2014 | Increase/ |
| | ***RMB'000*** | *RMB'000* | (decrease) |
| | **(unaudited)** | (unaudited) | *% change* |
| Revenue (Boree Products) | **17,051** | 3,832 | 345.0 |
| Revenue (Baofeng Products) | **–** | 3 | (100.0) |
| Revenue (Brand Licensee Business) | **–** | 14 | (100.0) |
| Revenue (OEM Business) | **88,703** | 89,379 | (0.8) |
| Revenue (Total) | **105,754** | 93,228 | 13.4 |

For the Period under review, the revenue of the Group increased by 13.4% to approximately RMB105,754,000 as compared with that of the corresponding period last year. Revenue from Boree branded products increased by 345.0% to approximately RMB17,051,000 as compared with that of the corresponding period last year, as a result of the success in the change of the Group's marketing strategy. The performance from the OEM business kept stable, maintaining similar sales level as last corresponding period.

**Selling and Distribution Expenses**

During the Period, selling and distribution expenses decreased by 32.8% to approximately RMB7,087,000 as compared with that of the corresponding period last year (2014: RMB10,546,000), which accounted for 6.7% (2014: 11.3%) of the Group's revenue. The decrease was due to the suspension of brand licensee business, which incurred more selling and distribution expenses than other business segments, during the Period.

**General and Administrative Expenses**

General and administrative expenses recorded a decrease of 35.3% to approximately RMB12,979,000 for the Period (2014: RMB20,046,000) as compared with that of the corresponding period last year, which accounted for 12.3% (2014: 21.5%) of the Group's revenue. The decrease was mainly due to the adoption of a series of cost saving plans since the second half of 2014.

**Liquidity and Financial Resources**

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB23.8 million (2014: RMB28.0 million). As at 30 June 2015, cash and bank balances were approximately RMB1,168 million, representing a net increase of 1.65% as compared with approximately RMB1,149 million as at 31 December 2014. 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 overheated 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. The interest-bearing bank borrowings of the Group as at 30 June 2015 was approximately RMB124 million (31 December 2014: RMB122 million). All bank loans were repayable within one year.

**Pledge of Assets**

As at 30 June 2015, the bills payables were secured by the Group's pledged deposits amounting to approximately RMB8,224,000 (31 December 2014: RMB5,696,000).

**Contingent Liabilities**

As at 30 June 2015 and 31 December 2014, the Group had no material contingent liabilities.

**Foreign Exchange Risk**

During the Period, the sales of the Group were mainly denominated in United States dollars and Renminbi. The cost of sales and operating expenses were mainly denominated in Renminbi. The management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure if necessary.

**Gearing Ratio**

As at 30 June 2015, the gearing ratio of the Group was 17.5% (31 December 2014: 20.3%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

**Human Resources**

As of 30 June 2015, the Group had a total of approximately 840 employees (31 December 2014: approximately 970 employees).

**Use of Net Proceeds from the Share Offering**

As at 30 June 2015, the Company had unutilised net proceeds from the Initial Public Offering (''IPO'') in the amount of approximately RMB145.2 million, representing approximately 37% 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 happens, further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules.

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 2015 is set out as follows:

| Nature | Amount raised *RMB'000* | Amount utilised *RMB'000* |
|---|---|---|
| To increase production capacity | 135,683 | 87,125 |
| Marketing and advertising expenses | 96,917 | 96,917 |
| To acquire other branded product business | 58,150 | – |
| To strengthen design capability | 19,383 | 11,116 |
| To establish flagship shops and showrooms | 19,383 | 4,090 |
| To strengthen the distribution resource planning system | 19,383 | 4,409 |
| General working capital | 38,767 | 38,767 |
| Total: | 387,666 | 242,424 |

## BUSINESS REVIEW AND FUTURE PROSPECTS

The Group was successful in adjusting its distribution channel with those national retail chains instead of single regional distributors during the Period, in order to increase the penetration rate of the products of the Group. This resulted in a rebound of the revenue of the Group's own branded business during the Period.

Apart from the change in sales channel, the Group reduced the production costs and greatly improved the gross profit margin. The gross profit margin for the Period increased by 106% compared with last corresponding period, from 13.9% in 2014 to 28.7% in 2015 due to the improvement of technology. During the Period, the Group also put significant resources and effort into the technology research and development of new materials to be used in the manufacture of footwear with higher quality and better features in terms of elasticity, weight, wear-resistance, portability, air permeability and antibacterial effect.

Except for the existing business, the Group is prudently seeking opportunities to acquire new technologies, such as hi-tech disinfection and deodorization chips and pressure-sensitive sensors for shoes. As detailed in the Group's announcements dated 24 November 2014 and 29 April 2015, the Company entered into the letters of intent with (i) Bluestone Technologies (Cayman) Limited in relation to acquire the proprietary technology of graphene-based disinfection devices and pressure-sensitive sensors for shoes; and (ii) Belleds Technologies LLC in relation to the technology cooperation in the development of low power consumption data gathering and transfer technology for wearable devices, respectively. The terms of the above acquisition and cooperation are still under discussion.

In view of the improved operating results during the Period, the Group is in the right track to diversify its business, which would mitigate operating risk and maximise returns to the shareholders of the Company. The Group expects the production efficiency and competitiveness would be continuously enhanced with the benefit of technology development and introduction of new products in the future.

## OTHER INFORMATION

### Interim Dividend

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

### 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 Period, 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. Chan Chak Chak Daniel and the independent non-executive Directors, Ms. An Na did not attend the annual general meeting held on 12 June 2015 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 chairperson of remuneration committee, Ms. An Na was unable to attend the annual general meeting held on 12 June 2015.

**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 throughout the Period under review.

**Audit Committee**

The audit committee was established by the 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 the Group's financial reporting process and internal control system and review and monitor appointment of the auditors and their independence.

The audit committee comprises three independent non-executive Directors, namely Mr. Chen Shaohua, Professor Zhao Jinbao and Ms. An Na. Mr. Chen Shaohua 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.

**Purchase, Redemption or Sale of Listed Securities of the Company**

During the Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

**Publication of Interim Results Announcement 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, 28 August 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.*