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 2015

The board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015, together with the comparative figures for 2014 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 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	4	**171,655**	196,773
Cost of sales		**(128,746)**	(177,720)
GROSS PROFIT		**42,909**	19,053
Other net income and gains	4	**13,091**	13,050
Selling and distribution expenses		**(11,968)**	(13,812)
General and administrative expenses		**(36,078)**	(35,936)
Amortisation expense of intangible assets	10	**(6,501)**	–
Finance costs	5	**(7,848)**	(8,549)
Fair value loss on financial liabilities at fair value through profit or loss	14	**(13,451)**	(4,019)
LOSS BEFORE TAX	6	**(19,846)**	(30,213)
Income tax expense	7	**(5,823)**	(939)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(25,669)**	(31,152)
LOSS PER SHARE	9		
– Basic (RMB)		**(0.02)**	(0.03)
– Diluted (RMB)		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**87,341**	95,214
Prepaid lease payments		**33,485**	34,330
Intangible assets	*10*	**1,476,616**	–
		1,597,442	129,544
CURRENT ASSETS			
Inventories		**31,366**	30,967
Trade and bills receivables	*11*	**39,034**	41,533
Prepayments, deposits and other receivables		**7,451**	14,034
Income tax recoverable		**–**	2,151
Pledged deposits		**2,723**	5,696
Cash and bank balances		**789,836**	1,148,881
		870,410	1,243,262
CURRENT LIABILITIES			
Trade and bills payables	*12*	**38,679**	48,297
Deposits received, other payables and accruals		**630,259**	51,051
Interest-bearing bank borrowings	*13*	**129,570**	121,884
Convertible notes	*14*	**–**	53,123
Warrants	*14*	**21,590**	4,137
Income tax payable		**1,640**	–
		821,738	278,492
NET CURRENT ASSETS		**48,672**	964,770
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,646,114**	1,094,314
NON-CURRENT LIABILITIES			
Convertible notes	*14*	**91,717**	–
Provision for contingent consideration	*15*	**422,285**	–
Deferred tax liability		**3,071**	3,071
		517,073	3,071
NET ASSETS		**1,129,041**	1,091,243
EQUITY			
Share capital		**70,555**	67,258
Reserves		**1,058,486**	1,023,985
TOTAL EQUITY		**1,129,041**	1,091,243

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.

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. 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 issued by the International Accounting Standards Board for the first time in the current year:

Amendments to IAS 19	Employee Benefits: Defined Benefit Plans – Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

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 resource 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, intangible assets, 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, income tax payable, deferred tax liability and provision for contingent consideration as these liabilities are managed on a group basis.

3. **SEGMENT INFORMATION** (continued)

Year ended 31 December 2015

	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	27,849	–	–	143,806	171,655
Segment results	5,172	–	–	25,769	30,941
Reconciliation:					
Interest income					4,454
Other unallocated net income and gains					8,637
Corporate and other unallocated expenses					(42,579)
Fair value loss on financial liabilities at fair value through profit or loss					(13,451)
Finance costs					(7,848)
Loss before tax					(19,846)
Segment assets	9,734	–	–	42,940	52,674
Reconciliation:					
Corporate and other unallocated assets					2,415,178
Total assets					2,467,852
Segment liabilities	150	150	–	–	300
Reconciliation:					
Corporate and other unallocated liabilities					1,338,511
Total liabilities					1,338,811

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)

Geographical information

(a) Revenue from external customers

	2015	2014
	RMB'000	*RMB'000*
PRC (principal place of operations)	**27,561**	62,064
United States of America ("US")	**128,416**	122,753
South America	**800**	4,400
Europe	**1,087**	4,254
South East Asia	**10,111**	1,883
Other countries	**3,680**	1,419
	171,655	196,773

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

(b) Non-current assets

	2015	2014
	RMB'000	*RMB'000*
PRC (principal place of operations)	**1,597,420**	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 years contributing over 10% of the total sales of the Group are as follows:

	2015	2014
	RMB'000	*RMB'000*
Customer A	**71,475**	75,043
Customer B*	**19,798**	17,652
Customer C*	**18,079**	4,810

* Revenue from Customer B and Customer C contributed less than 10% of the total sales of the Group for the year ended 31 December 2014 respectively.

Except Customer C in the Boree Products segment, the Group's other major customers are in the OEM segment.

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:

	2015	2014
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of goods	**171,655**	196,773
Other net income and gains		
Interest income	**4,454**	4,528
Sales of scrap material	**1,912**	2,239
Sales of semi-products	**188**	1,076
Rental income	**462**	322
Subsidy income*	**500**	4,323
Exchange gain	**1,976**	–
Others	**3,599**	562
	13,091	13,050

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

5. FINANCE COSTS

	2015	2014
	RMB'000	*RMB'000*
Interest on bank loans repayable within five years	**7,848**	8,549

6. LOSS BEFORE TAX

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

	2015	2014
	RMB'000	*RMB'000*
Cost of inventories sold*	**134,156**	177,309
Depreciation*	**8,069**	10,339
Amortisation of prepaid lease payments	**845**	845
Minimum lease payments under operating leases in respect of land and buildings*	**3,457**	7,671
Employee benefit expenses (including directors' remuneration)*:		
Wages and salaries	**44,490**	46,093
Equity-settled share option expense	**9,467**	–
Staff welfares	**314**	853
Contributions to retirement benefits schemes	**1,461**	4,544
	55,732	51,490
Auditors' remuneration	**1,467**	1,590
Impairment loss/(reversal of impairment loss) on trade receivables	**218**	(19)
(Reversal of write-down)/write-down of inventories	**(5,410)**	411
Loss on disposals of items of property, plant and equipment	**1**	698
Exchange (gain)/loss, net	**(1,976)**	429
Research and development costs**	**2,231**	2,733

* *The cost of inventories sold for the year ended 31 December 2015 includes approximately RMB30,226,000 (2014: RMB31,876,000) 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's tax losses brought forward from prior years exceeded the assessable profits arising in Hong Kong for the year (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.

	2015	2014
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**3,399**	–
Under-provision in prior years	**2,424**	939
Total tax charge for the year	**5,823**	939

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2015 and 2014 and since the end of the reporting period.

9. LOSS 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 1,043,644,473 (2014: 1,013,720,833) 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 2015 included the 1,013,720,833 ordinary shares in issue, and 31,194,997 ordinary shares and 22,663,778 ordinary shares issued on 8 June 2015 and 18 June 2015 in respect of the exercise of the conversion rights attached to the convertible notes.

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.

During the year ended 31 December 2015, diluted loss per share does not assume the exercise of the Company's share options and convertible notes as the exercise of the Company's share options and convertible notes would result in a decrease in loss per share, and is regarded as anti-dilutive.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2014 in respect of a dilution as the exercise prices of the share options and warrants and the conversion price of the convertible notes of the Company outstanding during the year 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 per share.

10. INTANGIBLE ASSETS

	Technology Know-how *RMB'000*
Cost:	
At 1 January 2015	–
Addition and at 31 December 2015	1,483,117
Accumulated amortisation:	
At 1 January 2015	–
Provided for the year and at 31 December 2015	6,501
Net carrying amount:	
At 31 December 2015	1,476,616
At 31 December 2014	–

The intangible assets of the Group as at 31 December 2015 represented certain technological know-how in respect of the application of graphene and includes one patent in the US ("US Patent"), four invention patent applications, three utility model patent applications and two utility model patents in the PRC (collectively as "PRC Patents"), relating to the manufacturing of graphene-based ethylene-vinyl acetate ("EVA") foam material, graphene deodorizing and sterilizing chips and graphene-based pressure-sensitive sensors and the exclusive formula (collectively "Technology Know-how"), acquired from Bluestone Technologies (Cayman) Limited ("Bluestone"), an independent third party, during the year ended 31 December 2015 for a total maximum consideration of RMB1,800 million, which comprises of a maximum of RMB1,648,524,590 in cash; and issuance of convertible notes with a maximum aggregate principal amount of HK$184,800,000 (equivalent to RMB151,475,410).

The above consideration includes initial consideration of RMB450 million ("Initial Consideration") and contingent consideration up to a maximum of RMB1,350 million ("Contingent Consideration") which comprise of:

(a) Initial Consideration

(i) RMB359,114,754 in cash; and

(ii) issue convertible notes with principal amount of HK$110,880,000 (equivalent to RMB90,885,246).

(b) Contingent Consideration

(i) a maximum of approximately RMB1,289,409,836 in cash; and

(ii) issue convertible notes with principal amount of HK$73,920,000 (equivalent to RMB60,590,164).

10. INTANGIBLE ASSETS (continued)

The completion date of the transaction ("Completion Date") was 16 December 2015. The cost of the Technology Know-how was determined by the Directors of the Company and represents the sum of the cash consideration, the fair value of the convertible notes (note 14) and Contingent Consideration at the acquisition date (note 15), and the capitalised transaction costs arising directly from the acquisition of the Technology Know-how. The Technology Know-how has definite useful lives and is amortised over 10 years using the straight-line method.

The Directors of the Company conducted an impairment assessment and considered that there was no impairment to the carrying amount of the Technology Know-how as at 31 December 2015, with reference to a valuation on the Technology Know-how conducted by an independent professional valuer, Ascent Partners Valuation Service Limited ("Ascent Partners"), under the income-based approach. The income-based approach is based on a pre-tax discount rate of 19.34% and cash flow projections prepared from financial forecasts approved by the Directors of the Company. Other key assumptions for the income-based approach relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the expected and forecasted performance generated from the use of the Technology Know-how and management's expectations on the market development.

11. 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:

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**32,845**	28,969
4 to 6 months	**1,935**	6,176
7 to 12 months	**4,254**	6,388
	39,034	41,533

12. 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:

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**24,240**	33,930
Over 3 months	**14,439**	14,367
	38,679	48,297

The trade and bills payables are non-interest-bearing and are normally settled on six months terms (2014: six months). The bills payable of RMB7,825,200 (2014: RMB18,986,000) were secured by the Group's pledged deposits amounting to RMB2,723,000 as at 31 December 2015 (2014: RMB5,696,000).

13. INTEREST-BEARING BANK BORROWINGS

	2015	2014
	RMB'000	*RMB'000*
Secured bank loans repayable within one year	**129,570**	121,884

(a) At 31 December 2015 and 2014, the bank loans were denominated in Renminbi and US dollars and bore interest rates ranging from:

Year ended 31 December 2015	1.510% – 7.570% per annum
Year ended 31 December 2014	5.600% – 7.950% per annum

(b) At 31 December 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 RMB18,945,000 (2014: RMB22,210,000) and approximately RMB34,301,000 (2014: RMB35,146,000) respectively. In addition, the bank loans were guaranteed by two independent third parties.

14. 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 "2012 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 "2012 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 2012 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).

In connection with the acquisition of the Technology Know-how as explained in note 10, the Company issued zero-coupon unsecured convertible notes (the "2015 Convertible Notes") with principal amount of HK$110,880,000 as part of the Initial Consideration on 16 December 2015.

The 2012 Convertible Notes and 2015 Convertible Notes (collectively as 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.

2012 Convertible Notes

The 2012 Convertible Notes give the holder of the 2012 Convertible Notes (the "Notes Holder") the right (the "Conversion Right") to convert all or any part of the outstanding principal amount of the 2012 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 2012 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 2012 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 2012 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.

14. CONVERTIBLE NOTES AND WARRANTS (continued)

2012 Convertible Notes (continued)

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 2012 Convertible Notes in whole or in part.

The Company is obliged to pay interest on the 2012 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 2012 Convertible Notes. As long as the Notes Holder does not elect to require the Company to redeem the 2012 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 2012 Convertible Notes are converted or redeemed, whichever date is earlier.

In the event where the Company fails or is unable to deliver shares of the Company upon the exercise of any right to convert attached to any 2012 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 2012 Convertible Notes had been adjusted from HK$1.31 to HK$1.27 in accordance with the terms and conditions of the 2012 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 2012 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 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 valuation performed by BMI Appraisals Limited, an independent firm of professionally qualified valuers.

14. CONVERTIBLE NOTES AND WARRANTS (continued)

2012 Convertible Notes (continued)

During the year ended 31 December 2013, the Group repaid part of the principal amount of 2012 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 2012 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 2012 Convertible Notes in the aggregate principal amount of HK$64,000,000, representing the entire outstanding principal amount of the 2012 Convertible Notes.

The terms and conditions of the Disposal were 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.

During the year ended 31 December 2015, the Group received a total of three conversion notices from all Notes Holders of the 2012 Convertible Notes in respect of the exercise of the Conversion Rights attached to the 2012 Convertible 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 ordinary shares to the Notes Holders in June 2015 with additional share capital and share premium of approximately HK$4,175,629 (equivalent to RMB3,296,534) and approximately HK$64,225,018 (equivalent to RMB50,703,725). No 2012 Convertible Notes remain outstanding at the end of 2015.

2015 Convertible Notes

The 2015 Convertible Notes entitle the holder to convert them into ordinary shares of the Company at any time from the date of issue of the 2015 Convertible Notes to the date immediately prior to the maturity date on 16 December 2018, being the third anniversary of the date of issue, in multiples of HK$1,000,000 at a conversion price of HK$0.84 per conversion share subject to adjustments in certain events. The shares to be allotted and issued upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. Also, the Company has a right to redeem the 2015 Convertible Notes at any time before the maturity date of the 2015 Convertible Notes.

During the year ended 31 December 2015, the 2015 Convertible Notes holder did not convert any 2015 Convertible Notes.

14. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants

The 2012 Warrants initially give the holder of the 2012 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 2012 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 2012 Warrants. The subscription period of the 2012 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 2012 Warrants at a price equal to the Black Scholes Value in respect of the relevant 2012 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 2012 Warrants (the "Supplemental Warrants Instrument"). The Supplemental Warrants Instrument had been approved by the Subscriber as the sole holder of the 2012 Warrants in accordance with the terms and conditions of the 2012 Warrants. In accordance with the Supplemental Warrants 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 2012 Warrants were also transferred from the Subscriber to the Transferees on 29 October 2014.

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

14. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants (continued)

The 2015 Warrants entitle the 2015 Warrants 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 2015 Warrants) for a period of eighteen months commencing from the date of issue of the 2015 Warrants, i.e. 21 April 2015.

Upon full subscription of the 2012 Warrants and 2015 Warrants (collectively as the "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. RMB190,092,000).

No warrants have been exercised during both years ended 31 December 2014 and 2015.

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 changes in fair value are recognised in the statement of profit or loss.

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 2012 Convertible Notes have been redeemed and paid in full by the Company or ii) the date on which all 2012 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.

14. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing (continued)

Since 27 July 2012, the shares of the Company are no longer within the definition of "Designated Security" under the Rules of the Stock Exchange. At the request of the Subscriber, on 10 September 2012, the Stock Lender and the Subscriber entered into an amendment agreement (the "Amendment Agreement") to amend the Stock Borrowing Agreement. Pursuant to the Amendment Agreement, the terms in the Stock Borrowing Agreement has been modified to a share transfer agreement (the "Share Transfer Agreement"), pursuant to which 32,000,000 of the Company's ordinary shares were sold by the Stock Lender to the Subscriber at HK$32,320,000 (the "Consideration"). The Stock Lender is no longer entitled to the redelivery of the respective shares or their equivalent under the Share Transfer Agreement.

On 10 September 2012, the Stock Lender and the Subscriber entered into a letter agreement (the "Call and Put Option Confirmation") pursuant to which the Subscriber had granted to the Stock Lender the right to purchase 32,000,000 of the Company's ordinary shares at a strike price of HK$1.01 (the "Call Option") and the Stock Lender has granted the Subscriber the right to require the Stock Lender to purchase 32,000,000 of the Company's ordinary shares at the same strike price (the "Put Option"). The Stock Lender may exercise the Call Option at any time and from time to time during the period between (i) the later of (a) the date on which the principal and interest of the 2012 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 2012 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.

14. CONVERTIBLE NOTES AND WARRANTS (continued)

Valuation of the Convertible Notes and the Warrants

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

	2012 Convertible Notes	2015 Convertible Notes	2012 Warrants	2015 Warrants	Total
	RMB'000	*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
Issued during the year	–	91,717	–	4,880	96,597
Converted during the year	(54,001)	–	–	–	(54,001)
Fair value loss charged to profit or loss during the year	878	–	7,009	5,564	13,451
Fair value at 31 December 2015	–	91,717	11,146	10,444	113,307
Represented by:					
Current portion	–	–	11,146	10,444	21,590
Non-current portion	–	91,717	–	–	91,717
	–	91,717	11,146	10,444	113,307

14. CONVERTIBLE NOTES AND WARRANTS (continued)

Valuation of the Convertible Notes and the Warrants

As at 31 December 2015 and 2014, the fair values of the 2012 Convertible Notes and the 2012 and 2015 Warrants were based on the valuations performed by Asset Appraisal Limited. The fair value of the 2015 Convertible Notes was based on the valuation performed by Ascent Partners. Both valuers are independent firms of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	2015	2014
2012 Convertible Notes		
Stock price (HK$)	**N/A**	0.56
Principal amount (HK$'000)	**N/A**	64,000
Coupon rate (%)	**N/A**	7.00
Conversion price (HK$)	**N/A**	1.27
Volatility (%)	**N/A**	83.60
Risk-free rate (% per annum)	**N/A**	0.06
Expected life (years)	**N/A**	0.47
Expected dividend yield (%)	**N/A**	0
2015 Convertible Notes		
Stock price (HK$)	**0.77**	N/A
Principal amount (HK$'000)	**110,880**	N/A
Coupon rate (%)	**0**	N/A
Conversion price (HK$)	**0.84**	N/A
Volatility (%)	**74.08**	N/A
Risk-free rate (% per annum)	**0.74**	N/A
Expected life (years)	**3.00**	N/A
Expected dividend yield (%)	**0**	N/A
2012 Warrants		
Stock price (HK$)	**0.78**	0.56
Exercise price (HK$)	**1.49**	1.49
Volatility (%)	**82.61**	59.31
Risk-free rate (% per annum)	**0.36**	0.98
Expected life (years)	**1.98**	2.98
Expected dividend yield (%)	**0**	0
2015 Warrants		
Stock price (HK$)	**0.78**	N/A
Exercise price (HK$)	**1.50**	N/A
Volatility (%)	**105.99**	N/A
Risk-free rate (% per annum)	**0.11**	N/A
Expected life (years)	**0.81**	N/A
Expected dividend yield (%)	**0**	N/A

15. PROVISION FOR CONTINGENT CONSIDERATION

In connection with the acquisition of the Technology Know-how as explained in note 10, provision for contingent consideration represented the acquisition-date fair value of contingent consideration of i) a maximum of approximately RMB1,289,409,836 in cash ("Cash Consideration"); and ii) the contingent convertible notes ("Contingent CNs") with principal amount of HK$73,920,000 (equivalent to approximately RMB60,590,164), which will be issued by the Company after fulfilment of certain conditions specified in the acquisition agreement signed on 14 October 2015 ("Acquisition Agreement"), as part of the consideration for the acquisition of the Technology Know-how.

The provision for contingent consideration is classified as a financial liability as it is resulted from a contract that will or may be settled in the Company's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. The amount will then be measured at fair value and any changes in fair value will be recognised in the statement of profit or loss.

On the Completion Date, the provision for contingent consideration was appraised in accordance with the valuation report issued by Ascent Partners.

The settlement of Cash Consideration and the Contingent CNs is subject to the following conditions:

"Second Instalment Conditions" refer to (a) the registration of the transfer of the PRC Patents and the US Patent having been completed in the State Intellectual Property Office of the PRC and the United States Patent and Trademark Office respectively, such that the Company having become the applicant of the PRC Patents (or if the PRC Patents are granted, the Company having become the PRC Patents owner) under the record of the State Intellectual Property Office of the PRC, and the Company having become the US Patent owner under the record of the United States Patent and Trademark Office; and (b) the training provided by Bluestone to the technicians of the Group and its contracted parties having been completed, such that the Group and its contracted parties having been able to produce graphene-based EVA foam material and graphene deodorizing and sterilizing chips based on the Technology Know-how independently, and the graphene-based EVA foam material and graphene deodorizing and sterilizing chips produced having been certified by an independent technical organisation at provincial level or above to meet the inspection standard as stipulated under the Acquisition Agreement.

Upon fulfilment of the Second Instalment Conditions, the second instalment in the amount of RMB450,000,000 shall be payable by the Company, of which (a) RMB389,409,836 shall be paid in cash within 6 months after fulfilment of the Second Instalment Conditions; and (b) RMB60,590,164 shall be satisfied by issuing the convertible notes with principal amount of HK$73,920,000 to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Second Instalment Conditions.

Bluestone should procure the Second Instalment Conditions to be fulfiled within 6 months after the Completion Date.

15. PROVISION FOR CONTINGENT CONSIDERATION (continued)

"Third Instalment Conditions" refer to (a) the accumulated turnover of a special purpose vehicle ("SPV") to be established by the Group for the sales of graphene-based EVA foam material, graphene deodorizing and sterilizing chips and graphene-based wearable devices manufactured using the Technology Know-how and/or any other companies (other than companies of the Group) authorised to use the Technology Know-how having reached RMB40,000,000; and (b) the sales volume of graphene-based EVA foam material having reached 20,000 cubic meters, each within 9 months after the Completion Date (or such later date as the Company may agree).

Upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, the third instalment in the amount of RMB270,000,000 shall be payable by the Company in cash to Bluestone or its nominee(s) within 15 business days after the fulfilment of the Third Instalment Conditions.

Bluestone should procure the Third Instalment Conditions to be fulfiled within 9 months after the Completion Date (or such later date as the Company may agree). In the event that (i) the Second Instalment Conditions cannot be fulfiled within 6 months after the Completion Date (or such later date as the Company may agree), or (ii) the Third Instalment Conditions cannot be fulfiled within 9 months after the Completion Date (or such later date as the Company may agree), the Company is not obligated to pay the third instalment of the consideration of RMB270,000,000.

Pursuant to the Acquisition Agreement, upon fulfilment of the Second Instalment Conditions and the Third Instalment Conditions, Bluestone is entitled to share 35% of the earnings before interest, taxes, depreciation and amortisation ("EBITDA") of the SPV for the 6-month period ended 30 June or 31 December of each year ("Interim Financial Period") during which the Second Instalment Conditions and the Third Instalment Conditions are fulfilled and each subsequent Interim Financial Period (until the end of the sixth financial year ending 31 December from the Completion Date), subject to a maximum sharing amount of RMB630,000,000 (the "EBITDA Sharing Mechanism").

For the avoidance of doubt, the financial year in which the Completion Date ending on would be considered as the first financial year for the purpose of the EBITDA Sharing Mechanism. During the period under the EBITDA Sharing Mechanism, for each Interim Financial Period, the Company should appoint an independent auditor to issue a certificate for the EBITDA of the SPV during the relevant Interim Financial Period within 4 months from the end of such Interim Financial Period, and the sharing amount shall be paid by the Company in cash to Bluestone or its nominee(s) within 15 business days after the issuance of such certificate. Any license fees for the Technology Know-how payable by the SPV to the Group will be disregarded in the calculation of the EBITDA.

If the accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism is less than RMB1,800,000,000 (for the purpose, if the SPV records a loss in any Interim Financial Period, the EBITDA of the SPV of that Interim Financial Period would be regarded as zero in calculating the accumulated EBITDA), the total sharing amount under the EBITDA Sharing Mechanism will be less than RMB630,000,000 and the Company is not obligated to pay the shortfall between RMB630,000,000 and 35% of the actual accumulated EBITDA of the SPV during the period under the EBITDA Sharing Mechanism.

15. PROVISION FOR CONTINGENT CONSIDERATION (continued)

The movements of the provision for contingent consideration were as follows:

	RMB'000
As at 1 January 2015	–
Acquired on acquisition of the Technology Know-how	1,029,203
As at 31 December 2015	1,029,203
Current portion included in deposits received, other payables and accruals	(606,918)
Non-current portion	422,285

The fair value of the provision for contingent consideration is calculated using the binomial model. The inputs into the model were as follows:

Stock price (HK$)	0.77
Coupon rate (%)	0
Conversion price (HK$)	0.84
Expected dividend yield (%)	0
Expected volatility (%) (note a)	70.14
Expected life (years) (note b)	3.54
Risk free rate (% per annum) (note c)	0.83
Discount rate	18.78%

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.
(b) Expected life was the expected remaining life of the Contingent CNs.
(c) The risk free rate is determined by reference to the yield of the Hong Kong Generic Bond.

The Directors of the Company conducted a fair value assessment of the provision for contingent consideration as at 31 December 2015, with reference to a valuation conducted by Ascent Partners, no material changes in fair value was noted between the Completion Date and as at 31 December 2015.

16. EVENT AFTER THE REPORTING PERIOD

On 2 February 2016, the Company has paid RMB389,409,836 by way of cash and RMB60,590,164 by way of issuing the convertible notes with principal amount of HK$73,920,000 as the second instalment of the consideration in relation to the acquisition of the Technology Know-how. Details of the Second Instalment Conditions were stated in the note 15.

MANAGEMENT DISCUSSION & ANALYSIS

With the depressed economic growth in the PRC sustained in the past few years, the Group has changed its distribution channel to cooperate with national retail chains instead of single regional distributors starting from 2014, in order to improve its sales performance. However, the Group recorded a decrease in revenue of 12.8% to approximately RMB171.7 million (2014: approximately RMB196.8 million). The decrease was due to that in 2014, sales discounts promotion was offered to customers to clear slow-moving inventory, leading to the increase of revenue in the corresponding period.

During the year ended 31 December 2015, as the management implemented better minimum inventory management model to avoid problem of slow-moving inventory, no clearance sales were held in 2015. In addition, with the help of improvement of technology, the gross profit and gross profit margin of the Group for the year ended 31 December 2015 increased to approximately RMB42.9 million and 25.0% from 2014 of approximately RMB19.1 million and 9.7% respectively.

Despite the substantial increase in gross profit of the principal business of the Group, the Group recorded a net loss of approximately RMB25.7 million (2014: RMB31.2 million) for the year ended 31 December 2015, which is mainly attributable to (i) share-based payment expenses of RMB9.5 million (2014: Nil) in relation to the share options granted by the Company on 10 December 2015; (ii) amortisation expense of intangible assets of RMB6.5 million in relation to the acquisition of the Technology Know-how from Bluestone on 16 December 2015; and (iii) the substantial increase in fair value loss on convertible notes and warrants at fair value through profit or loss to RMB13.5 million (2014: RMB4.0 million).

BUSINESS REVIEW

Revenue by Product Category

	2015 ***RMB'000***	2014 *RMB'000*	(Decrease)/ increase%
Revenue (Boree Products)	**27,849**	51,488	(45.9%)
Revenue (Baofeng Products)	**–**	847	(100.0%)
Revenue (Brand Licensee Business)	**–**	779	(100.0%)
Revenue (OEM Business)	**143,806**	143,659	0.1%
Revenue (Total)	**171,655**	196,773	(12.8%)

Own Branded Business

The continuous slowdown of 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. The Group still faced a huge challenge for its own branded business. 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 RMB27.8 million (2014: RMB51.5 million), representing a 45.9% decrease from the previous year. Decrease was due to that clearance sales were held to reduce the slow-moving inventory level in 2014, resulting in a high revenue in last corresponding period and increase of the gross profit margin of Boree brand from 0% in 2014 to 39.5% in 2015. On the other hand, as many customers from the mass market in the PRC changed to online purchase, the Group shifted the resources to other business lines in 2015 with no revenue generated from the Baofeng brand during the year (2014: RMB0.8 million).

Brand Licensee Business

As a result of the serious piracy problem in the PRC, the performance in the Brand Licensee Business could not meet our expectation and not in proportion with the cost injected. As such, the Group did not extend any franchise license upon expiry in 2015, resulting in no revenue generated from Brand Licensee Business during the year (2014: RMB0.8 million).

OEM Business

During the year, the performance of Group's OEM business kept stable, maintaining similar sales level of RMB143.8 million as compared with last year (2014: RMB143.7 million). Notwithstanding the labour cost and the raw material cost, as the major production cost of footwear, kept increasing during the year, the Group put effort to improve the technology to reduce production costs, maintaining its pricing competitiveness in the footwear market. Therefore, the performance of the OEM business remained stable during the year.

FINANCIAL REVIEW

Selling and Distribution Costs

During the year, selling and distribution costs decreased by 13.4% to approximately RMB12.0 million as compared with that of last year (2014: RMB13.8 million), which accounted for 7.0% (2014: 7.0%) of the Group's revenue. The decrease was consistent with the decrease in Group's revenue.

General and Administrative Expenses

General and administrative expenses maintained a similar level of approximately RMB36.1 million for the year ended 31 December 2015 as compared with that of last year (2014: RMB35.9 million). This was mainly due to a series of cost saving plans adopted by the Group in 2015, which was offset by share-based payment expenses of RMB9.5 million (2014: Nil) in relation to the share options granted by the Company during the year.

Liquidity and Financial Resources

During the year, net cash outflow from operating activities of the Group amounted to approximately RMB4.3 million (2014: net cash inflow of RMB70.6 million). As at 31 December 2015, cash and bank balances were approximately RMB789.8 million, representing a decrease of 31.3% as compared with the cash and bank balances as at the end of last year (2014: RMB1,148.9 million). The decrease was mainly due to the payment for the cash portion of the Initial Consideration of the acquisition of the Technology Know-how of RMB359.1 million during the year. As at 31 December 2015, most of the Group's cash and bank balances, representing over 99% was denominated in Renminbi. As at 31 December 2015, the interest-bearing bank borrowings of the Group were approximately RMB129.6 million (2014: approximately RMB121.9 million). All bank loans were denominated in Renminbi and US dollars, with fixed interest rates and repayable within one year.

Capital Structure

As at 1 January 2015, there were 1,013,720,833 shares in issue and the Company carried a share capital of approximately RMB67,258,000. During the year ended 31 December 2015, the Company issued 53,858,775 shares to holders of convertible notes who exercised their conversion rights attached to the convertible notes. As at 31 December 2015, the Company had 1,067,579,608 shares in issue and a paid-up capital of approximately RMB70,555,000.

Significant Investments, Material Acquisitions and Disposals

Saved for the acquisition of the Technology Know-how as disclosed in note 10 to the financial results, the Group did not have any other significant investments, material acquisitions and disposals during the year.

Pledge of Assets

As at 31 December 2015, the bills payables were secured by a pledge of the Group's time deposits amounting to approximately RMB2.7 million (2014: RMB5.7 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 RMB18.9 million (2014: RMB22.2 million) and approximately RMB34.3 million (2014: RMB35.1 million) respectively.

Contingent Liabilities

As at 31 December 2015 and 2014, 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 risk exposure if necessary.

Gearing Ratio

As at 31 December 2015, the gearing ratio of the Group was 54.2% (2014: 20.3%). Gearing ratio was calculated as total debts divided by the total equity plus total debts. Total debts refer to the total liabilities minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 31 December 2015, the Group had a total of approximately 900 employees (2014: 970 employees), with total staff costs for the year ended 31 December 2015, including directors' remuneration, amounted to approximately RMB55,732,000 (2014: RMB51,490,000). The Group's emolument policies are based on the merit, qualifications and competence of individual employee and are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. The Company also adopted a share option scheme on 8 January 2011 to motivate and reward its Directors and eligible employees.

Use of Net Proceeds from the Share Offering

As at 31 December 2015, the Company had unutilised net proceeds from the Initial Public Offering ("IPO") in the amount of approximately RMB143.0 million, representing approximately 36.9% 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 2015 is set out as follows:

Nature	**Amount raised**	**Amount utilised**
	RMB'000	*RMB'000*
To increase production capacity	135,683	87,958
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	12,546
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	244,687

FUTURE PROSPECTS

The Group has significantly increased the gross profit margin of its principal business due to its commitment to technology improvement in the past year. In addition, as the management has implemented better minimum inventory management model to avoid problem of slow-moving inventory, the Group did not have any clearance sales in 2015, which has substantially improved the gross profit margin of its principal business. As a result of the foregoing, the Group's gross profit margin was significantly increased to 25.0% in 2015 from 9.7% in 2014.

The Group completed its acquisition of the Technology Know-how from Bluestone in 2015 and has successfully applied the Technology Know-how in the production of foam materials with sterilizing function, which will be further used in the production of sterilizing shoe mats in 2016. The Group is negotiating with several large domestic and international brand customers. In 2016, the Group will vigorously develop the graphene technology for a wide range of applications in shoes, clothes and wearable devices. On 22 January 2016, the Company and Bluestone entered into the agreement of cooperation on technology development in relation to the cooperation for the development of graphene-based material and its application technology (excluding graphene-based touch panels and graphene-based flexible displays). Besides, the Group plans to cooperate with several global companies in the sterilizing and cleansing area based in the US for the development on the application technology of graphene. In addition, the Group will apply the acquired US patented technology in the cooperation with a Fortune 500 company in the PRC in respect of graphene applications research, which is expected to bring substantial contributions to the Company in the short and medium-term.

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 2015, 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 deviations as detailed 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 comprise 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 of the Company. 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 Director, Ms. An Na were unable to attend the annual general meeting held on 12 June 2015 due to their other 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 SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to 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 and each of them confirmed that they have complied with the required standards set out in the Model Code during the financial year ended 31 December 2015.

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 to the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and risk management and internal control systems and review and monitor appointment of the auditors and their independence. As at 31 December 2015, the audit committee comprised three independent non-executive Directors, namely Mr. Chen Shaohua, Professor Zhao Jinbao and Ms. An Na, and Mr. Chen Shaohua was the chairperson of the audit committee. On 3 February 2015, Mr. Lee Keung and Professor Bai Changhong resigned as chairperson and member of the audit committee, who were replaced by Mr. Chen Shaohua and Professor Zhao Jinbao respectively. The annual results of the Group for the year ended 31 December 2015 have been reviewed by the audit committee. The Group's consolidated financial statements for the year ended 31 December 2015 have been audited by the Company's auditors, Pan-China (H.K.) CPA Limited, and an unqualified opinion has been issued.

COMPANY SECRETARY

On 7 January 2016, Mr. Kwok Chi Yin resigned and Mr. Tsang Wing Pong was appointed as the company secretary and authorised representative of the Company for the service of process and notices under the Hong Kong Companies Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2015, 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 2015.

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, 24 March 2016

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 Ms. Lin Weihuan 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.