BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED

寶 峰 時 尚 國 際 控 股 有 限 公 司

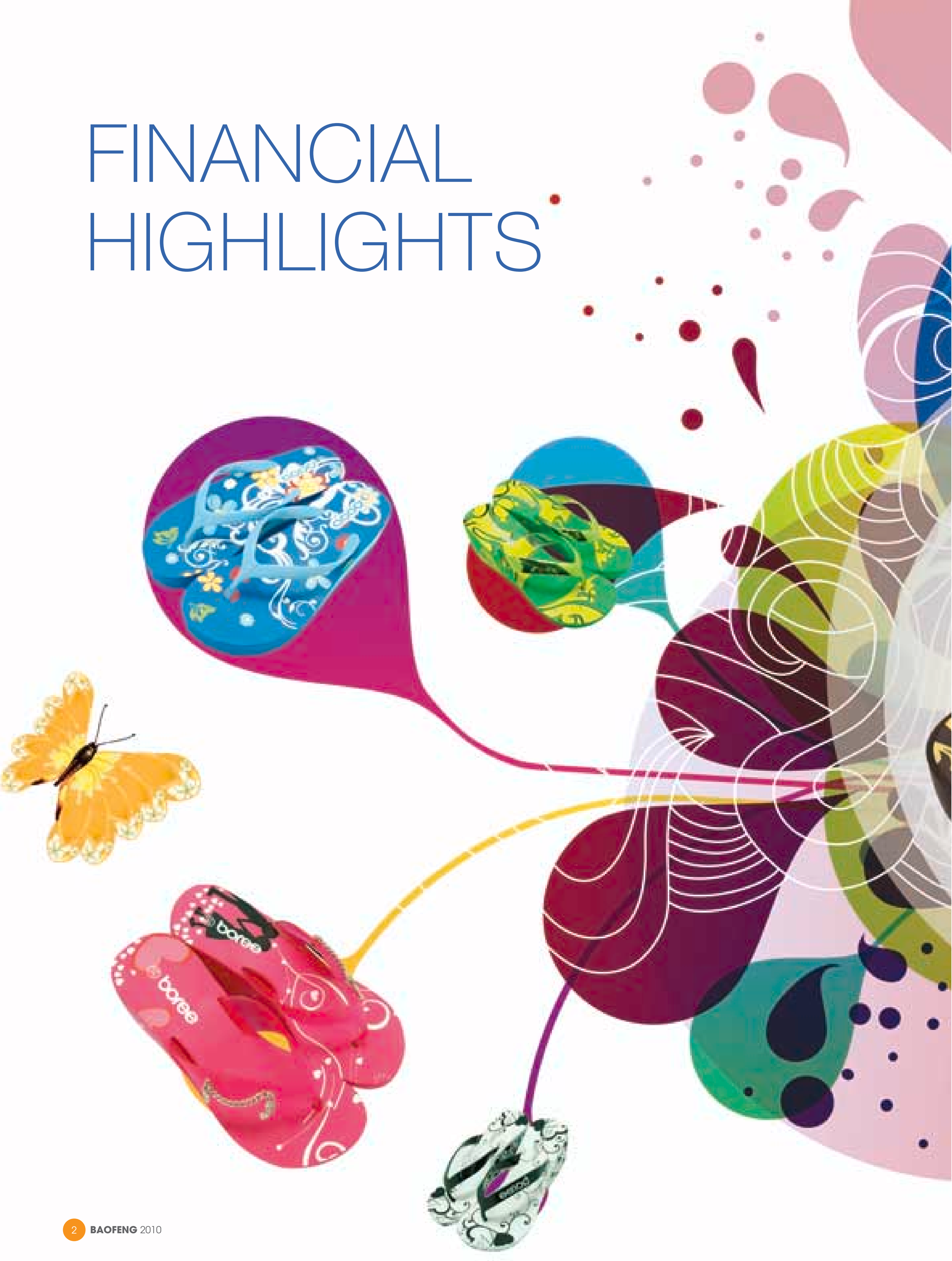
(Incorporated in the Cayman Islands with limited liablility)

Stock Code : 1121

2010
ANNUAL REPORT

CONTENTS

FINANCIAL HIGHLIGHTS



	2010 RMB'000	2009 RMB'000	Increase/ (decrease) % Change
Revenue (Total)	**833,268**	588,552	41.6%
Revenue (Boree Products)	**226,971**	85,860	164.4%
Revenue (Baofeng Products)	**87,143**	34,784	150.5%
Revenue (OEM business)	**519,154**	467,908	11.0%
Gross Profit	**275,189**	165,373	66.4%
Profit for the Year	**114,151**	70,105	62.8%
Total Assets	**560,806**	430,332	30.3%
Shareholders' equity	**306,534**	223,602	37.1%

FINANCIAL SUMMARY
(4 Years)

For the year ended 31 December

	2010	2009	2008	2007
Profitability data (RMB million)				
Revenue	**833.3**	588.6	499.3	429.3
Gross profit	**275.2**	165.4	130.6	104.6
Operating profit	**159.4**	118.8	107.6	81.3
Profit for the year	**114.2**	70.1	58.2	68.9
Profitability ratios (%)				
Gross profit margin	**33.0%**	28.1%	26.2%	24.4%
Operating profit margin	**19.1%**	20.2%	21.5%	18.9%
Net profit margin	**13.7%**	11.9%	11.7%	16.1%
Return on average total shareholders' equity	**37.2%**	31.4%	37.9%	55.3%
Operating ratios (as a percentage of revenue) (%)				
Advertising and marketing expenses	**4.6%**	2.1%	0.7%	0.6%
Assets and liabilities data (RMB million)				
Non-current assets	**83.0**	87.6	87.8	43.5
Current assets	**477.8**	342.8	260.2	166.1
Current liabilities	**254.3**	203.2	194.5	84.9
Non-current liabilities	**0.0**	3.5	0.0	0.0
Shareholders' equity	**306.5**	223.6	153.5	124.6
Asset and Working Capital data				
Current asset ratios	**85.2%**	79.7%	74.8%	79.3%
Gearing ratios	**36.6%**	46.3%	54.8%	40.0%

Note:

The financial information for the year ended 31 December 2006 was not disclosed as consolidated financial statements for the Group have not been prepared for that year. The summary above does not form part of the audited consolidated financial statements.

CORPORATE INFORMATION

Board of Directors

Executive Directors:
Mr. ZHENG Liuhe (Chairman)
Mr. ZHANG Aiguo (Vice-chairman)
Mr. CHEN Qingwei (Chief Executive Officer)
Mr. ZHENG Jingdong

Non-Executive Directors:
Mr. SZE Ching Bor
Mr. CHEUNG Miu

Independent Non-Executive Directors:
Professor BAI Changhong
Mr. LEE Keung
Ms. AN Na

Board Committees

Audit Committee
Mr. LEE Keung (Chairperson)
Professor BAI Changhong
Ms. AN Na

Remuneration Committee
Ms. AN Na (Chairperson)
Professor BAI Changhong
Mr. LEE Keung

Nomination Committee
Professor BAI Changhong (Chairperson)
Mr. LEE Keung
Ms. AN Na

Company Secretary

Mr. AU Wai Keung *(CPA, ACA)*

Authorised Representatives

Mr. CHEN Qingwei
Mr. AU Wai Keung

Stock Code

01121

Company Website

www.chinabaofeng.com

Head Office in the PRC

Huoju Industrial Zone
Jiangnan Town
Licheng District
Quanzhou City
Fujian Province
PRC

Principal Place of Business in Hong Kong

25th Floor, Tern Centre Tower 1
237 Queen's Road Central
Hong Kong

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Auditor

Ernst & Young

Legal Adviser

Orrick, Herrington & Sutcliffe

Compliance Adviser

CMB International Capital Limited

Principal Bankers

China Bank of Construction
Bank of China

CORPORATE HISTORY AND MILESTONES

1999
Establishment of Quanzhou Baofeng

2001
Started OEM Business

2002
Quanzhou Baofeng recognized as a "Significant Generator of Foreign Exchange in excess of US$1 million from Export Trade" by Licheng district committee of the Quanzhou municipal government

2003
Quanzhou Baofeng recognized as one of the "Key Township Enterprises in Fujian Province" by Bureau of Township Enterprises of Fujian Province

2004
Quanzhou Baofeng recognized as one of the "Top 1,000 Fastest Growing Small and Medium Manufacturing Enterprises in China"by China International Cooperation Association of Small and Medium Enterprises and Department of Industries and Transportation of National Bureau of Statistics of China

2006

Started cooperation with a licensed distributor of a Fortune 500 Company

2007

Started to focus on our own branded products business and launched Boree brand

2008

Draft national standard for slipper industry and approved by National Development and Reform Commission

2009

Launched Baofeng brand

2010

Selected as licensed manufacturer for slipper products and retailer of footwear products of 2010 Shanghai World Expo

2011

Baofeng was successfully listed in Hong Kong

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 (the "Year").

The Chinese government's fiscal policies and economic stimulus measures, including the 12th Five Year Plan, fueled domestic consumption and the purchasing power of consumers, underscoring the economic rebound in 2010. With rising demand driven by growing urbanization and Chinese consumers' preference over fashionable yet functional slippers, we are well positioned to strengthen our foothold in the Chinese fashionable slippers market.

During the Year, the Group continued to achieve encouraging results. Turnover of the Group amounted to RMB833.3 million (2009: RMB588.6 million), representing a year-on-year growth of 41.6%. Gross profit margin increased from 28.1% in 2009 to 33.0% in 2010. Profit for the Year increased to RMB114.2 million in 2010, representing an increase of 62.9% from RMB70.1 million in 2009.

Our significant and encouraging growth was mainly due to the strong performance of our Boree and Baofeng business, which had a higher gross profit margin than the traditional OEM business

In 2010, the turnover from our Boree and Baofeng business accounted for 37.7% of the Group's total revenue, as compared with 20.5% in 2009. The turnover from the business increased to RMB 314.1 million in 2010 (2009: RMB 120.6 million), representing a 160.4% growth. This shows that the strategy of shifting our business model from OEM business to branded products business in the past years was successful, and we will continue to put our focus on this segment.

The rapid expansion of the Group's distribution network as well as effective marketing strategies maintained our leading position in the fashionable slipper market in China. During the Year, the number of sales points of Boree products has significantly increased from 147 to over 520 as compared to the same period of last year, representing a net increase of approximately 373 stores over 2009.

To strengthen our brand recognition and equity, the Group was selected as a licensed manufacturer of slippers and a retailer of footwear products for the 2010 Shanghai World Expo. It was one of the key highlights for the Group in 2010 as the corporate image of Baofeng has been enhanced through the national and global media coverage in such historical and remarkable event.

Looking forward, as the branded slipper market is expected to post great potential growth in China, the Group will continue to focus on the development of Boree and Baofeng business by enhancing the brand and expanding its distribution network. The Group plans to establish flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong. In addition to the domestic market, the Group will also explore opportunities overseas, especially in Asia.

To meet the growing demand for slippers, the Group intends to increase its production capacity progressively by constructing new facilities in two phases in Quanzhou City, Fujian Province and installing additional production lines at the existing production facilities located in the city.

Last but not least, on behalf of the Board, I would like to thank all parties for their efforts in the successful listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited on 28 January 2011. I would also like to take this opportunity to express my sincere gratitude to our management, staff, customers, suppliers, business partners and shareholders for their continuous commitment and support.

ZHENG Liuhe
Chairman

Hong Kong

28 March 2011

MANAGEMENT DISCUSSION & ANALYSIS

Our goal as a Group is to lead the Chinese slipper industry with Boree and Baofeng brand built upon a passion for fashion and function.

MANAGEMENT DISCUSSION & ANALYSIS

MARKET OVERVIEW

The Group is a leading supplier of slippers (including own-branded slippers) in the PRC.

The PRC slipper market has been growing steadily in recent years, which is partly driven by the growth in the PRC economy. The fashionable slipper market in the PRC is still in its early growth stage. The industry is benefiting from the growth in urbanization level, disposable income of urban households and retail sales in the PRC.

According to Frost & Sullivan, an independent global consulting company based in the United States with nearly 50 years of industry experience, the PRC's urban per capita disposable income grew rapidly and steadily at a compound annual growth rate ("CAGR") of 13.1% from 2005 to 2009. It is expected that the number will grow at a CAGR of approximately 11.1% from 2010 to 2014.

The increase in per capita disposable income will lead to a strong growth in retail sales of consumer goods in the PRC. Total retail sales of consumer goods is expected to grow at a CAGR of 13.4% in the PRC from 2010 to 2014, and the retail sales value will likely exceed RMB26,071 billion in 2014. (Source: Frost & Sullivan).

The boost in domestic consumption is further strengthened after China´s National People´s Congress has approved the 12th Five-Year Plan. Raising domestic consumption and increasing urbanization are two of the key targets for the plan. Such policies will continue to stimulate the growth of retail sector in the consumer market which creates genuine growth opportunities for the mass-market domestic brands.

The PRC fashionable slipper market is one of the markets that the Group focuses on. In comparison with the traditional slippers, fashionable slippers typically to feature with stylish and colorful designs and are usually worn in public or outdoor. In general, fashionable slippers have higher selling prices than the traditional slippers. According to Frost & Sullivan, revenue from sales of fashionable slippers in the PRC grew at a CAGR of 14.5% from approximately RMB3,600 million in 2007 to over RMB4,700 million in 2009. With the increasing purchasing power of PRC consumers, the growth in revenue from sales of fashionable slippers in the PRC is expected to remain high at a CAGR of approximately 18.2% from 2009 to 2014.

BUSINESS REVIEW

The Group is a leading supplier of slippers in the PRC. We are primarily engaged in the manufacture of slippers for our OEM customers and in the design and manufacture of slippers under our Boree and Baofeng brands. As of June 2010, the Group ranked top among domestic brands and slipper suppliers with fashion designs in terms of domestic sales revenue derived from branded products (source: Frost & Sullivan).

Leveraging on the growing domestic consumption in China, the Group has entered into a period of rapid developments and growth through the brand enhancement and network expansion during the Year. As the branded slipper market is expected to post great potential growth, the Company has shifted its focus to produce slippers with fashionable designs in recent years. Such business strategy implemented by the Group has been successful as evidenced by encouraging results in consecutive years.

Branded Business

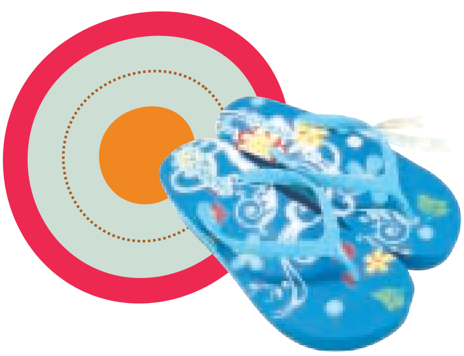
The business of our branded products was the key growth driver of the Group for the year under review. The business has continued to develop rapidly and achieved a robust growth in the Year. As the gross profit margin for branded products is higher than those of the OEM products, the Group is determined to focus on enhancing the development of the Boree and Baofeng brand.

Boree

Our Boree brand principally offers slippers with fashionable designs targeting at women between 18 to 40 years of age, and aiming to reach the medium-to-high end market. Our products are divided into spring/summer collections and autumn/winter collections to meet different customer needs and cater for different weather conditions. In addition, theme-oriented collections within our Boree brand are also created to add variety to our product offerings. We also offer a small portion of bags under the Boree brand that was sold during the the Year. For the year of 2010, our Boree brand recorded strong growth as our revenue increased from RMB85.9 million in 2009 to RMB227.0 million in 2010. We will continue to employ our effective marketing strategies in order to anchor our brand's leading position in the fashionable slipper market in China.

Baofeng

The Baofeng brand offers traditional slippers with various designs and styles that caters for budget-to-medium market. In addition, we have launched different series of Baofeng brand slippers with catchy names, including Bubble slippers, Cartoon slippers, Tall slippers and Grassy slippers. The sales of Baofeng brand products have recorded an outstanding result as we recorded 150.5% growth to RMB87.1 million for the Year.



OEM Business

We have been manufacturing slippers and footwear on an OEM basis for a broad customer base. The quality of our OEM products is widely recognised by our business partners around the globe. The OEM business customers included chain store giants and enterprises which are in the Fortune Global 500 List. The Group recorded steady sales growth from OEM business in 2010. Sales increased by 11.0% to RMB519.2 million for the Year under review. Our strong customer relationship allows us to continue to keep abreast of the latest fashion trends and acquire the knowledge needed to design products.

In 2010, we were selected to be a manufacturer for slippers and footwear products of the 2010 Shanghai World Expo. As a licensed manufacturer, we are authorised to design and manufacture licensed slippers bearing the trademark of the 2010 Shanghai World Expo. We received an award in recognition of the quality of our 2010 Shanghai World Expo Products issued by the Bureau of Shanghai World Expo Coordination in November 2010. The Group's corporate image has been further enhanced following the national and global coverage in the 2010 Shanghai World Expo.

Distribution Network

All the sales points of Boree and Baofeng brand products are operated by our distributors. The Group has established an extensive nationwide distribution network for the branded products during the year under review. As of 31 December 2010, the number of sales points of Boree products has significantly increased from 147 to over 520 as compared to 31 December 2009. Most of the sales points are located in specialty stores, concessionary counters, department stores and shopping malls. Leveraging on the management and its established relationships with the distributors to oversee the operation of respective sales point, the Group is able to focus and allocate more resources for the promotional campaigns in the branded businesses.

Production Capability

During the year of 2010, the Company has focused on resources and development for the enhancement in production capacity, and as a result we have produced approximately 38 million pairs of slippers. The production facilities are strategically located in Quanzhou, a hub city of the PRC footwear industry; and the raw material providers are in close proximity to keep delivery time at a minimum. As such, the Group is able to keep a low level of raw material inventory throughout the Year as the purchases were made in a timely, accurate and efficient manner.

As the management of the Group anticipates that sales of fashionable slippers will grow rapidly in the next few years as a result of the PRC's rapidly growing economy, accelerating urbanization and increasing disposable income, the current production capacity of the Group may not be able to meet the demand in the slipper market. The Company is planning to execute a new construction project to increase the total production capacity in the upcoming years in order to meet growing demands and capitalize the rapid business growth.

Design Capability

In April 2010, the Group entered into a co-operative agreement with an external research centre in Dongguan. The research centre will provide no less than 1,000 slipper designs per year. Together with the external design house in Italy that the Group has already engaged, we are able to gain access with first-hand knowledge of the latest global fashion trends.

In 2010, the Group held a slipper design competition "BaoF Cup No.2 — Fashion Your Step". The corporate image of the Company was strengthened as the winning designs were presented and announced with extensive media coverage. The Group is committed to continuously offer quality and popular designs slippers with international standards.

Comprehensive and Established Information Systems

During the year under review, the Group has upgraded its Enterprise Resource Planning System ("ERP System") to link up the procurement, production, inventory, sales and financing systems. The Distribution Resource Planning system ("DRP System") was also enhanced by the Group in order to achieve a more effective and efficient planning of production levels.

These upgraded systems are able to monitor and track the inventory of distributors and sales points in a real-time environment. As of 31 December 2010, the DRP System was installed at 116 Boree Sales Points across our distribution network.

The upgraded ERP System together with the DRP System will continue to facilitate the integration and exchange of information among the Boree Sales Points, distributors and the headquarter of the Group.

Marketing Campaign

During the year under review, the Group has adopted effective marketing strategies to strengthen its leading position and enhance brand recognition in the PRC and Asia.

Firstly, we have engaged celebrities to promote our branded products. We engaged a well-known and popular actress Ms. Li Xiao-lu, Jacqueline as the image and brand spokesperson for Boree. Ms. Li was awarded the Golden Horse Best Actress Award and Deauville Asian Film Festival Best Actress Award. We also invited celebrities to attend our promotional event in Hong Kong during Christmas. We believe that this celebrity endorsement strategy will further enhance our brands awareness.

Secondly, we have launched TV commercials during airtime on the China Central Television channel. The management of the Company believed that the launching of TV commercials is an effective way to increase the brand recognition and maximize our brand exposure over a short period of time.

Thirdly, we have advertised our Boree and Baofeng brands in fashion magazines, both in print and online, across the country in order to maintain a consistently high-profile market presence.

Fourthly, the Group entered into an agreement with the agent of Beijing Rayli Magazine House to jointly organize various promotional activities such as the "Selection of Baoren Rui Lady — I want to be beautiful". The winners were selected as our models to take part in Boree's marketing campaigns. Similar promotional activities will be held in the coming years.

In addition, the Group held a slipper design competition, "BaoF Cup No.2 — Fashion Your Step". The corporate image of the Company was strengthened as winning designs were presented and announced with extensive media coverage.

During Christmas in 2010, we have hired a promotional van to travel around Hong Kong to increase the exposure of Boree and Baofeng brands. The event received an overwhelming response and created a joyful ambience. We will continue to promote our brands in Hong Kong in the coming years.

FINANCIAL REVIEW

Revenue by Product Category

	2010 **RMB'000**	2009 RMB'000	Increase/ (decrease) % Change
Revenue (Total)	**833,268**	588,552	41.6%
Revenue (Boree Products)	**226,971**	85,860	164.4%
Revenue (Baofeng Products)	**87,143**	34,784	150.5%
Revenue (OEM business)	**519,154**	467,908	11.0%

For the Year, the revenue of the Group increased by 41.6% to RMB833.3 million and the gross profit margin rose from 28.1% to 33.0%.

Revenue from Boree and Baofeng brands boosted by 164.4% to RMB227.0 million and 150.5% to RMB87.1 million respectively in 2010, mainly due to the successful implementation of our effective marketing strategies and rapid expansion of the Group's distribution networks. In addition, the increase in sales was also attributable to the growing market demand for fashion-focused slipper products in China and overseas.

In fiscal of 2010, the business growth from OEM business remains sustainable and the revenue from OEM business increased by 11.0% to RMB519.2 million.

The Group will continue to focus on the development of Boree and Baofeng brands and strengthen our brand's leading position in the fashionable slipper market in China.

Cost of Sales and Gross Profit

Due to the facts that the growth of the revenue of the Group was mainly attributed to the growth of the branded products which have a higher profit margin, the cost of sales only increased by 31.9% from RMB423.2 million in 2009 to RMB558.1 million, as compared with the year-on-year growth rate of the total revenue in a sum of 41.6%. And accordingly, the Group recorded a year-on-year growth rate of 66.4% for the gross profit from RMB165.4 million in 2009 to RMB275.2 million in 2010.

Selling and distribution costs

Selling and distributions costs increased by 143.1% to RMB65.4 million during the year (2009: RMB26.9 million), primarily due to our aggressive advertising and marketing expenses.

General and administrative expenses

General and administrative expenses increased by 51.6% to RMB34.1 million in 2010 (2009: RMB22.5 million), mainly due to the increase in listing related expenses for the listing of the Company in early 2011.

Provision for Inventories

As of 31 December 2010, the Group did not record any provision for inventories. This implies that the Group's inventory management system is effective.

Provisions for Doubtful Debts

As of 31 December 2010, the Group did not make any provision for doubtful debts. The figures prove that our credit policies implemented against our customers are effective and efficient.

Working capital Management

	2010	2009	Percentage change
Average trade receivables turnover days	**39.0**	55.8	-30.1%
Average trade payables turnover days	**28.8**	47.7	-39.6%
Average inventory turnover days	**34.8**	39.8	-12.6%

All the figures of average trade receivables turnover days, average trade payables turnover days and average inventory turnover days in 2010 show a satisfactory improvement. The Group continued to implement an effective working capital management for the year under review.

Liquidity and Financial Resources

During the year of 2010, net cash inflow from operating activities of the Group amounted to RMB176.9 million (2009: RMB31.6 million).

As of 31 December 2010, cash and bank balances (including cash in hand and bank deposits with original maturities not exceeding three months) was in a sum of RMB327.9 million, representing a net increase of RMB149.4 million as compared to the position as of 31 December 2009. As of 31 December 2010, the Group's cash and bank balances was denominated in Renminbi and United States dollars. The interest-bearing bank borrowings of our Group as of 31 December 2010 was in a sum of RMB39.6 million (as of 31 December 2009: RMB54.5 million). All bank loan are repayable within one year and were denominated in Renmibi and United States dollars.

Pledge of Assets

As of 31 December 2010, the Group secured its bank borrowings by the pledge of the Group's trade receivables amounting to RMB33.9 million.

In addition, the exchangeable note was secured by the following:

(i) pledge of all of the ordinary share of the Company and its subsidiary, Baof International Limited ("BAOF HK"), and the 100% equity interest in Quanzhou Baofeng Shoes Co Limited ("Quanzhou Baofeng") to CITIC Capital China Mezzanine Fund Limited ("CITIC Capital");

(ii) pledge by a fixed and floating charge over all of the assets of the Company and BAOF HK to CITIC Capital;

(iii) pledge of all the Company's amounts due from BAOF HK to CITIC Capital from time to time; and

(iv) pledge of all the BAOF HK's amounts due from Quanzhou Baofeng to CITIC Capital from time to time.

The above securities will be released and discharged upon the exchange of the exchangeable note in full pursuant to the conditional release and discharge agreements entered between the Company and its shareholders, BAOF HK and CITIC Capital on 17 January 2011. On 17 January 2011, CITIC Capital delivered an exchange notice to exercise the exchange right of the exchangeable note in full. The exchangeable note was fully exercised on 28 January 2011.

Capital Commitment and Contingent liabilities

As of 31 December 2010, the Group had the contracted for commitment in respect of advertising and consultancy services and research and development of RMB0.5 million and RMB2.2 million, respectively. As of 31 December 2010, the Group did not have any material contingent liabilities.

Profit attributable to shareholders and Net Profit Margin

For the Year, the total consolidated comprehensive income attributable to the Company amounted to RMB114.2 million, representing an increase of 62.9% in comparison to the same period last year (2009: RMB70.1 million). Net profit margin of the Group also rose by 15.1% to 13.7% (2009: 11.9%).

Foreign Exchange Risk

During the Year, the sales of the Group were mainly denominated in US dollars and Renminbi in 2010. The cost of sales and operating expenses were mainly denominated in Renminbi.

During the Year, the Group did not hedge any exposure in foreign currency risk. However, management of the Group monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Gearing Ratio

As at 31 December 2010, the gearing ratio of the Group was 36.6%. (2009: 46.3%). Gearing ratio is total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As of 31 December 2010, the Group had a total of 2,382 employees (2009: 2,459 employees). The remuneration of the existing employees includes basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

FUTURE PROSPECTS

Looking forward, the Group will continue to focus on the development of Boree and Baofeng brands.

The management of the Group anticipates that the sales of fashionable slippers will grow rapidly in the years ahead as a result of the strong economic growth in China due to the acceleration urbanization and increasing disposable income. In addition to the domestic market, the Group will also explore and capitalise for market opportunities in the overseas market, particularly in Asia in 2011. We expected that our presences in Philippines and Indonesia will be established in 2011.

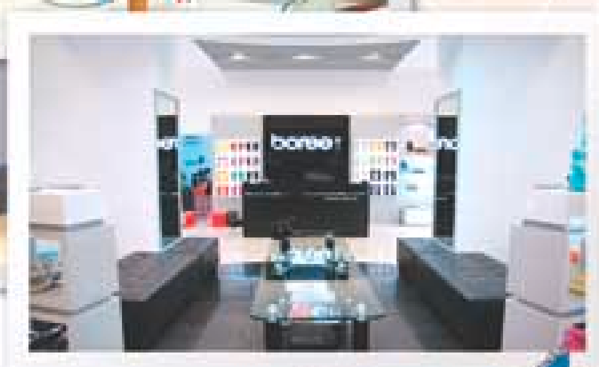
As stated in the prospectus of the Company dated 18 January 2011, the Group will apply the proceeds from the listing as follows:

- To increase our production capacity progressively by constructing new production facilities in two phases located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province and installing additional production lines at the existing production facilities located in Huoju Industrial Zone in Quanzhou;
- To secure our market position as a leading supplier of own-branded slippers in the PRC and increase recognition of our Boree and Baofeng brand names by increasing our marketing and advertising efforts. In this regard, the Company plans to use promotional posters, organise promotional events and place advertisements on television, newspapers and magazines;
- To acquire branded product businesses when suitable opportunities arise;
- To strengthen our design capability by (1) collaborating with an external research centre in Dongguan; (2) holding annual worldwide slipper design competitions; and (3) engaging external design houses;
- To establish flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong, as well as to establish a market presence in other countries in Asia;
- To strengthen the management of our operations and our ability to monitor the performance of our distributors, by extending the coverage of our DRP system to as many Sales Points as practicable and by upgrading our information systems from time to time; and
- The rest of the proceeds will be used as general working capital and other general corporate purposes.

Since the listing of the Company on 28 January 2011 and up to the date of this report, the proceeds from the listing were not applied for any use.

Our Sales Channels


boree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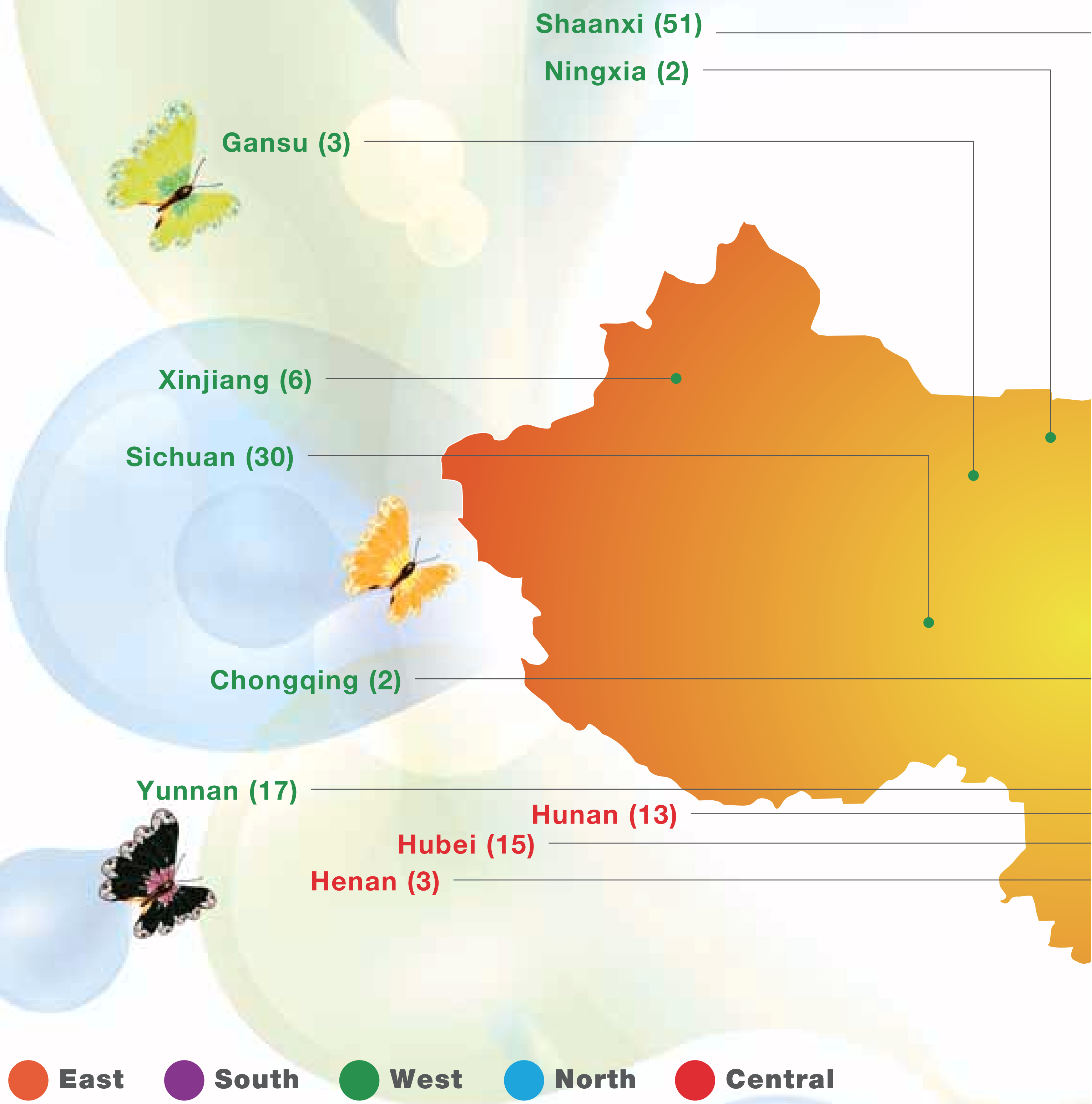
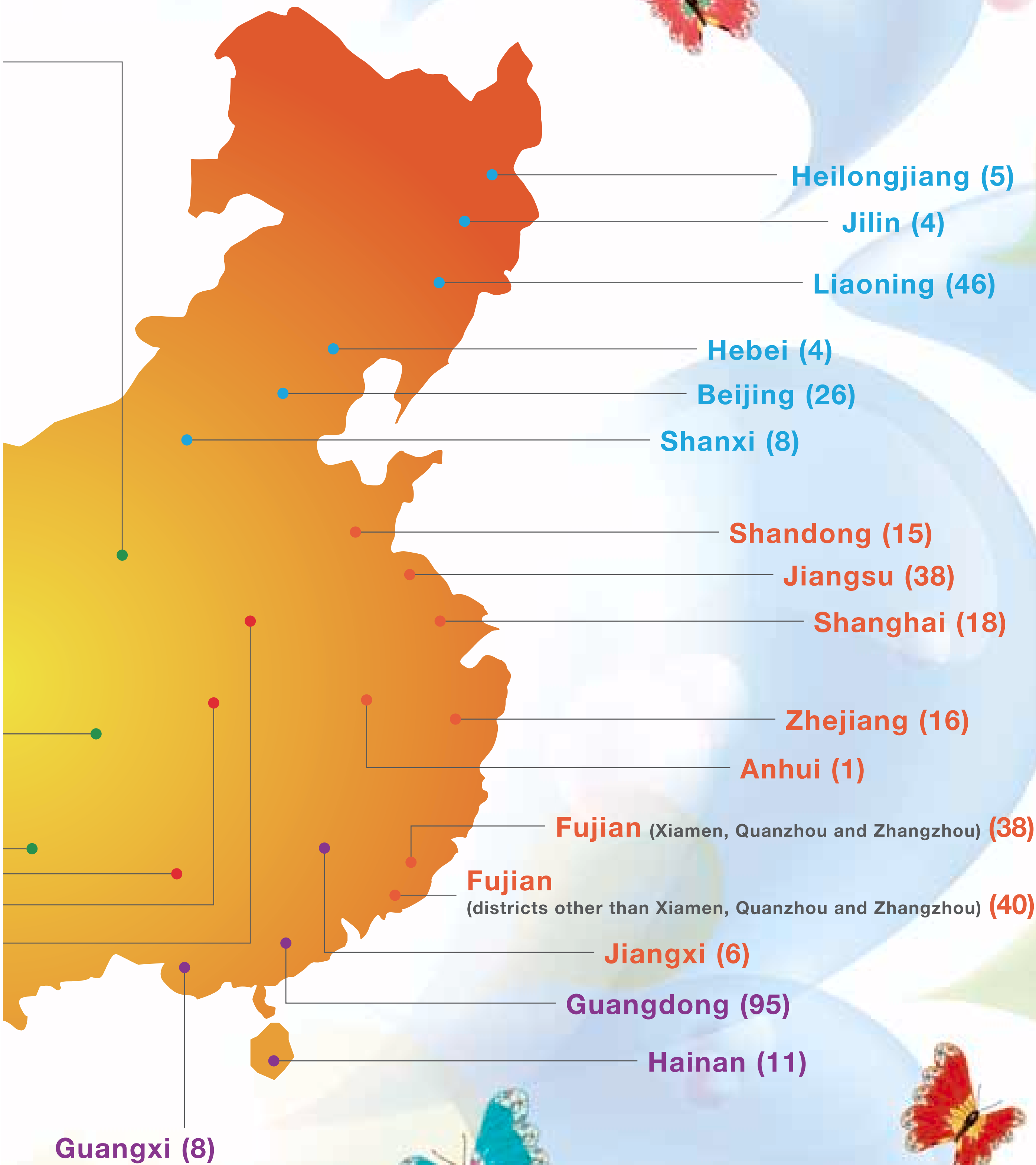
Our Distribution Network




Heilongjiang (5)
Jilin (4)
Liaoning (46)
Hebei (4)
Beijing (26)
Shanxi (8)
Shandong (15)
Jiangsu (38)
Shanghai (18)
Zhejiang (16)
Anhui (1)
Fujian (Xiamen, Quanzhou and Zhangzhou) (38)
Fujian (districts other than Xiamen, Quanzhou and Zhangzhou) (40)
Jiangxi (6)
Guangdong (95)
Hainan (11)
Guangxi (8)

CORPORATE GOVERNANCE REPORT

As the Company was listed on 28 January 2011 (the "Listing Date"), the Company was a private company and therefore not required to comply with the requirements under the code provisions set out in Appendix 14 – Code on Corporate Governance Practices (the "Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or the continuing obligations requirements of a listed issuer pursuant to the Listing Rules for the financial year ended 31 December 2010. The Directors consider that since the Listing Date, the Company has applied the principles and complied with the applicable code provisions set out in the Code.

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 as the required standard for securities transactions by Directors. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code from the Listing Date and up to the date of this Annual Report.

Board of Directors

The Board members are:

Executive Directors:
Mr. ZHENG Liuhe *(Chairman)*
Mr. ZHANG Aiguo *(Vice-chairman)*
Mr. CHEN Qingwei *(Chief Executive Officer)*
Mr. ZHENG Jingdong

Non-Executive Directors:
Mr. SZE Ching Bor (appointed on 30 June 2010)
Mr. CHEUNG Miu

Independent Non-Executive Directors:
Professor BAI Changhong (appointed on 30 June 2010)
Mr. LEE Keung (appointed on 30 June 2010)
Ms. AN Na (appointed on 30 June 2010)

The biographical details of the Directors and other senior management are disclosed in the section headed "Directors and Senior Management" on pages 32 to 37. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive experiences that may contribute to the business of the Group. The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules since the Listing Date. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

The Board meets regularly throughout the year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over the management. Sufficient notice of meetings is given to directors prior to a regular board meeting, and each director is able to request inclusion of matters in the agenda for board meeting. Full minutes are prepared after the meetings.

Every director is subject to re-election on retirement by rotation in accordance with the articles of association of the Company ("the Articles").

While daily business operations and administrative functions of the Group are delegated to the management, the Board determines and approves the Group's strategic plan, key operational initiatives, major investments and funding decisions.

Details of the attendance of the Board meetings held in the Year under review are summarized as follows:

	Number of board meetings attended/held in 2010	Attendance rate
Mr. ZHENG Liuhe	2/2	100%
Mr. ZHANG Aiguo	2/2	100%
Mr. CHEN Qingwei	2/2	100%
Mr. ZHENG Jingdong	2/2	100%
Mr. SZE Ching Bor (Note 1)	1/1	100%
Mr. CHEUNG Miu	2/2	100%
Professor BAI Changhong (Note 1)	1/1	100%
Mr. LEE Keung (Note 1)	1/1	100%
Ms. AN Na (Note 1)	1/1	100%

Note 1: One board meeting was held since the appointment of Mr. Sze Ching Bor, Professional Bai Changhong, Mr. Lee Keung and Ms. AN Na as the Directors on 30 June 2010.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer of the Company are Mr. ZHENG Liuhe and Mr. CHEN Qingwei respectively. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control.

All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board.

The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors, Professional Bai Changhong, Mr. Lee Keung and Ms. An Na, one of which, being Mr. Lee Keung, possesses appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills.

Appointments, Re-election and removal of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company. The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Audit committee

An audit committee was established by our board on 8 January 2011 with written terms of reference in compliance with the 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 internal control system. The audit committee comprises the three independent non-executive directors, namely Mr. LEE Keung, Professor BAI Changhong and Ms. AN Na. Mr. LEE Keung is the chairperson of the audit committee.

One meeting of the audit committee was held after the Listing Date to review the annual accounts of the Company for the year 2010.

Remuneration committee

The board of directors established the remuneration committee on 8 January 2011 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The remuneration committee comprises the three independent non-executive directors, namely Ms. AN Na, Mr. LEE Keung and Professor BAI Changhong. Ms. AN Na is the chairperson of the remuneration committee.

The remuneration committee did not hold any meeting during the year 2010 as it was established on 8 January 2011 and the Company was listed on the Listing Date.

Nomination Committee

On 8 January 2011, the Board of Directors established the nomination committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of directors. The nomination committee comprises the three independent non-executive directors, namely Professor BAI Changhong, Ms. AN Na and Mr. LEE Keung. Professor BAI is the chairperson of the nomination committee.

The nomination committee did not hold any meeting during the year 2010 as it was established on 8 January 2011 and the Company was listed on the Listing Date.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, and in accordance with International Financial Reporting Stantards issued by the International Accounting Stantards Board and the disclosure requirements of the Hong Kong Companies Ordinance. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditor's report contained in this report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Compliance Adviser

For the purpose of and in compliance with Rule 3A.19 of the Listing Rules, the Company has appointed CMB International Capital Limited as its compliance adviser for the period commenced from the Listing Date and end on the date on which the Company comply with Rule 13.46 of Listing Rules in respect of the financial results for the first full financial year commencing after Listing.

Internal Control

The Group maintains sound internal control systems to support our business operation. The internal control systems are designed to meet the Group's particular needs and the risks to which it exposed.

During the Year under reviewed, the Company has engaged Ernst & Young Advisory Services Limited to conduct a review on our internal control systems. Based on the assessment made, the Board considers the internal control systems of the Group are effective and there is no material deficiencies found on the internal control systems.

Auditors' Remuneration

During the Year, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Ernst & Young, were RMB1,846,000 and RMB4,387,000 respectively.

Communications with shareholders

Information about the Group has been provided to the shareholders through financial reports and announcements in order to keep shareholders well informed of the business activities and directions of the Group. The Group has also established a corporate website www.chinabaofeng.com as a channel to facilitate effective communication with the shareholders.

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHENG Liuhe
(鄭六和先生)

Mr. Zheng, aged 73, is the Chairman and an executive Director of the Company. He is primarily responsible for the overall strategic planning and development of our Group. He has been a Director since 21 July 2008. Mr. Zheng Liuhe has more than 10 years of experience in the slipper business in the PRC. He joined our Group in January 2000 as vice-general manager and has been the chairman of the board of Quanzhou Baofeng Shoes Co Ltd ("Quanzhou Baofeng"), an indirectly-owned subsidiary of the Company, since 28 March 2007. He has also been a director of Baof International Limited ("Baof HK"), a wholly-owned subsidiary of the Company, since 21 July 2008. Prior to joining our Group, Mr. Zheng Liuhe was the chairman of 泉州誠意旅遊用品有限公司 (Chengyi Travel Products Co., Ltd. Quanzhou) (formerly known as 泉州寶峰旅遊用品有限公司 (Quanzhou Baofeng Travel Products Co., Ltd.) ("Quanzhou Travel") from 1990 to 1999, which was engaged in manufacturing plastic slippers and travel hats. He was the chief of the production section of 泉州鯉城區經濟委員會 (Economic and Trade Commission of Licheng District, Quanzhou City) from 1987 to 1990. He worked in the production section of 晉江第二輕工業局 (Jinjiang Second Light Industry Bureau) (now known as 泉州市城鎮集體工業聯合社 (Quanzhou Urban Collective Industrial Community) from 1962 to 1987. Mr. Zheng Liuhe completed a course for machinery in the Mechanical and Electronics Department of 福建工程學院 (Fujian University of Technology) in July 1960. Mr. Zheng Liuhe is the father of Mr. Zheng Guozhang, a member of our senior management.

Mr. ZHANG Aiguo
(張愛國先生)

Mr. Zhang, aged 53, vice-chairman and an executive Director, is primarily responsible for the financial management and human resources management of our Group. Mr. Zhang has been a director since 21 July 2008. Mr. Zhang has more than 10 years of experience in the slipper business in the PRC. He has been a vice-general manager of Quanzhou Baofeng since 2000 and is responsible for financial management of our Group. He was appointed as the vice-chairman of the board of Quanzhou Baofeng on 28 March 2007 and as a director of Baof HK on 21 July 2008. Prior to joining our Group, he was a vice-general manager of Quanzhou Travel from 1989 to 1999.

Mr. CHEN Qingwei
(陳慶偉先生)

Mr. Chen, aged 56, our chief executive officer and an executive Director, is primarily responsible for the overall operational management of our Group. He has been a director since 10 March 2008. Mr. Chen has more than 10 years of experience in the slipper business in the PRC. He was the vice-general manager of Quanzhou Baofeng from 2000 to 2006 and was responsible for the production management of our Group. He has been appointed as the vice-chairman of the board of Quanzhou Baofeng since 28 March 2007 and has been responsible for the management of the production and domestic sales division of Quanzhou Baofeng since 2006. He was appointed as a director of Baof HK on 21 July 2008. Prior to joining our Group in 2000, Mr. Chen was a vice-general manager of Quanzhou Travel from 1994 to 1999. He was appointed various posts such as a chief of the production workshop, supervisor, business controller and deputy factory manager in 福建省泉州市第一皮件廠 (First Leather Factory of Quanzhou City, Fujian Province) from 1978 to 1993. Mr. Chen obtained a master's degree in Business Administration (International) from Edith Cowan University in 2009.

Mr. ZHENG Jingdong
（鄭景東先生）

Mr. Zheng, aged 45, an executive Director, is primarily responsible for overseeing the export sales division and the R&D department of our Group. He has been a director since 21 July 2008. Mr. Zheng Jingdong has more than 10 years of experience in the slipper businessin the PRC. Mr. Zheng Jingdong joined Quanzhou Baofeng as the general manager in 2000. He became a vice-general manager in 2006 and since then he has been responsible for the management of the export sales division of Quanzhou Baofeng. He has been appointed as a director of Quanzhou Baofeng since 28 March 2007 and as a director of Baof HK since 21 July 2008. Prior to joining our Group, he was a vice-general manager of Quanzhou Travel from1994 to 1999. Mr. Zheng Jingdong is a relative of Mr. Sze Ching Bor, a non-executive Director and a controlling shareholder.

Non-executive Directors

Mr. SZE Ching Bor
（史清波先生）

Mr. Sze, aged 63, is the founder of our Group and a non-executive Director. He was appointed as a Director on 10 March 2008 and resigned on 21 July 2008. On 30 June 2010, he was appointed as a non-executive Director and responsible for the corporate strategies, planning and business development of our Group. Mr. Sze has become a director of Quanzhou Baofeng since 28 March 2007 and was appointed as a director of Baof HK on 8 January 2008. Mr. Sze is a relative of Mr. Zheng Jingdong, an executive Director.

Mr. CHEUNG Miu
（張渺先生）

Mr. Cheung, aged 40, a non-executive Director, has been a Director of the Company and director of Baof HK since 22 September 2008. He has more than 15 years of experience in investment, banking and business development. Mr. Cheung is currently a senior managing director of CITIC Capital Holdings Limited. He obtained a master's degree in Business Administration from University of New South Wales in 1998 and a bachelor's degree in Business Administration from The Chinese University of Hong Kong in 1992.

Independent non-executive Directors

Professor BAI Changhong
（白長虹教授）

Professor Bai, aged 45, was appointed as an independent non-executive Director on 30 June 2010. Professor Bai has been the dean of 旅游與服務學院 (School of Tourism and Service) since January 2010, the dean of both 現代遠程教育學院 (School of Distance Education) and 成人教育學院 (School of Continuing Education) since September 2007 and the vice-dean of 商學院 (Business School) of 南開大學 (Nankai University) from December 2006 to April 2007. He was a temporary assistant to the mayor of Lijiang City from October 2005 to October 2006. Professor Bai's major areas of research include brand management and service industrydevelopment. Research projects in which Professor Bai participated include "CCTV 廣告經營與品牌：國際化策略、路徑與方法" (CCTV Advertisement and Brand Management:Internationalised Strategies, Paths and Methods) for 中央電視台(China Central Television) in 2009 and "CCTV綠色化品牌戰略與市場驅動型廣告經營模式創新研究" (Research on CCTVGreen Brand Strategy and Innovation of Market-driven Advertisement Management Model) in 2007. Professor Bai obtained a doctoral degree in Business Administration at 南開大學 (Nankai University) in 2001.

Mr. LEE Keung
（李強先生）

Mr. Lee, aged 41, was appointed as an independent non-executive Director on 30 June 2010. He has more than 15 years of experience in the accounting and audit fields. Mr. Lee has been an executive director and a general manager of a PRC company, which sells jewellery and electronic products, since its incorporation on 23 June 2009. From 1995 to 2009, Mr. Lee served as an accountant, a financial controller, a general manager and a key project member in a PRC trading company, which imports, exports and sells products and offers services to the medical field. He is a member of the Australian Society of Certified Practising Accountants. Mr. Lee obtained a master's degree in Business Administration from the China Europe International Business School in 2004 and a bachelor's degree in Commerce from Australian National University in 1992.

Ms. AN Na
（安娜女士）

Ms. An Na, aged 51, was appointed as an independent non-executive Director on 30 June 2010. She has been an editor of 中國輕工業出版社(China Light Industry Press) since 1982. She has also been a vice president of 北京《瑞麗》雜誌社 (Beijing Rayli Magazine House) since 2003 at which she has been responsible for managing and co-ordinating the publication of several fashion magazines. She received an editor's qualification from 國務院國有資產監督管理委員會(State-owned Assets Supervision and Administration Commission) in 2008. She obtained a bachelor's degree in Engineering with a major in the study of leather from 西北輕工業學院(Northwest Institute of Light Industry) (now known as 陝西科技大學 (Shaanxi University of Science and Technology) in 1982.

Senior Management

Mr. KWOK Chun Ching
(郭鎮清先生)

Mr. Kwok, aged 43, joined our Group in October 2008 and was appointed as the chief financial officer of our Company in December 2009. He is primarily responsible for the financial management of our Group. Before joining our Group, he served as an executive director and a chief financial officer of 慧捷控股有限公司 (Richchamp Holdings Limited) from September 2005 to September 2008. He was appointed as a financial controller and an executive director of 康盛（亞東）管道塗服務有限公司 (Kanssen (Yadong) Pipe Coating Services Limited) in March 1997 and 2002 respectively, and resigned in May 2005. He joined the accounts department of Siu-Fung Ceramics Holdings Limited ("Siu-Fung") (stock code: 395) (which was listed on the Main Board of the Stock Exchange from October 1993 to December 2001) in February 1993 and was promoted to deputy accounts manager until August 1996. He was involved in the preparation for the listing of Siu-Fung on the Stock Exchange in 1993 and for the spin-off of one of its operations on the New York Stock Exchange in 1996. Mr. Kwok obtained a bachelor's degree in Commerce from The Australian National University in 1992. Mr. Kwok was qualified as a Certified Practising Accountant by the Australian Society of Certified Practising Accountants on 28 February 1996 and was qualified as an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) on 1 January 1997.

Mr. ZHENG Guozhang
(鄭郭璋先生)

Mr. Zheng, aged 38, is the general manager of the domestic sales division of our Group and is responsible for the development and management of our branded product business. He joined our Group in 2000 as a general manager of the export division and has been the general manager of the domestic sales division of Quanzhou Baofeng since 2006. He has been a director of Quanzhou Baofeng since 28 March 2007. Prior to joining our Group, he was an export division manager of Quanzhou Travel from 1994 to 1999. Mr. Zheng Guozhang is a son of Mr. Zheng Liuhe, the Chairman and an executive Director.

Mr. ZENG Jianbo
(曾劍波先生)

Mr. Zeng, aged 45, is the manager of the procurement division of our Group and is responsible for the management of procuring and sourcing of raw materials. He joined our Group in 2000 and has since been a manager of the procurement department of Quanzhou Baofeng. He has been a director of Quanzhou Baofeng since 28 March 2007. Prior to joining our Group, he worked as a manager of the sourcing department of Quanzhou Travel from 1994 to 1999.

Mr. AU Wai Keung
(區偉強先生)

Mr. Au, aged 39, joined our Group on 22 May 2010 and is now the Company Secretary of the Company. He holds a bachelor's degree of Social Science from The Chinese University of Hong Kong and a master's degree in Business Administration from City University of Hong Kong. Mr. Au is also an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2010.

Change of company name

Pursuant to a written special resolution dated 22 May 2010, the name of the Company was changed from Baof International Limited 寶峰國際有限公司 to Baofeng Modern International Holdings Company Limited 寶峰時尚國際控股有限公司.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year. Details of principal subsidiaries of the Group as of 31 December 2010 are set out in note 18 to the financial statement.

Results

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 96.

Dividend

In light of the Company´s business expansion, which requires cash for capital expenditures and working capital, the directors did not recommend the payment of any final dividend for the year ended 31 December 2010. As disclosed in the prospectus of the Company dated 18 January 2011, the directors currently intend to recommend an annual dividend of not less than 25.0% of the net consolidated profit attributable to owners of the Company for the financial years subsequent to the global offering of the Company in January 2011. Such intention does not amount to any guarantee or representation or indication that the directors must or will declare and pay dividends in such manner or declare and pay dividends at all.

As of 31 December 2010, the amount of our declared but unpaid dividend was HK$70 million. As disclosed in the prospectus of the Company dated 18 January 2011, the payment of such declared but unpaid dividend was expected to be made on or before 31 March 2011. The Company would like to inform the shareholders of the Company that such payments are now expected to be made no later than 30 June 2011, as the relevant administrative procedures in respect of the payments require additional time. The Company confirms that the amount for such dividend payments continues to be held in escrow pending completion of the relevant administrative procedures and that the shareholders of our Company who are entitled to such dividend payment have agreed with such deferral.

Summary financial information

A summary of the financial information of the Group for the last four financial years is set out on page 4 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statement.

Share capital

Details of movements in the Company's share capital during the year are set out in note 29 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

The shares of the Company were first listed on the Main Board of the Stock Exchange on 28 January 2011. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after listing.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB331,145,000. The amount of RMB331,145,000 includes the Company's share premium account and contributed surplus of RMB346,842,000 in aggregate at 31 December 2010, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Charitable contributions

During the year, the Group made charitable contributions totalling RMB165,000.

Major customers and suppliers

In the Year under review, sales to the Group's five largest customers accounted for 26.2% of the total sales for the Year and sales to the largest customer included therein amounted to 9.8%.

Purchases from the Group's five largest suppliers accounted for 24.8% of the total purchases for the Year and purchase from the Group's largest supplier included therein amounted to 8.8% of the total purchases for the Year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

The directors of the Company during the year were:

Executive Directors:
Mr. ZHENG Liuhe (Chairman)
Mr. ZHANG Aiguo (Vice-chairman)
Mr. CHEN Qingwei (Chief Executive Officer)
Mr. ZHENG Jingdong

Non-Executive Directors:
Mr. SZE Ching Bor (appointed on 30 June 2010)
Mr. CHEUNG Miu

Independent Non-Executive Directors:
Professor BAI Changhong (appointed on 30 June 2010)
Mr. LEE Keung (appointed on 30 June 2010)
Ms. AN Na (appointed on 30 June 2010)

Pursuant to Article 84 of the Company's Article, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation.

By virtue of Article 84 of the Company's Articles, all the directors who retire at the forthcoming annual general meeting, being eligible, will offer themselves for re-election at the annual general meeting.

As such, Mr. Zhang Aiguo, Mr. Chen Qingwei and Mr. Zheng Jingdong will retire from office as directors at the forthcoming annual general meeting and will offer themselves for re-election.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 32 to 37 of the annual report.

Directors' service contracts

Each of the directors has entered into a service contract with our Company for an initial term of 3 years commencing from the Listing Date, which will continue thereafter until terminated by not less than three month notice (other than for one of our non-executive directors, Mr. Cheung Miu, terminated by not less than two months' notice) in writing served by either party on the other.

The details of the remuneration of each of the directors are revealed on note 8 to the financial statements.

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation at least once every three years as required by the Article of Association.

Independence of Independent non-executive Directors

The Company has received from each of its independent non-executive directors a written confirmation of his/her independence from the Group. Based on such confirmations, the Company consider that each of such directors to be independent from the Group for the purpose of Rule 3.13 of the Listing Rules.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year

Directors' and chief executive's interests and short positions in shares and underlying shares and debentures

Dealings in the shares of the Company commenced on the Stock Exchange on 28 January 2011,which was later than the end of the reporting period. As at the date of this report, the interests and short positions of the directors and chief executives of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SF Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity / Nature of Interest	Number of shares	Approximate percentage of interest in the Company
Mr. Sze Ching Bor	Interest in a controlled corporation	519,035,767	51.9%

Save as disclosed above, as at the date of this report, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share option scheme

The Company has a share option scheme ("Scheme") which was adopted pursuant to a resolution of all shareholders passed on 8 January 2011 and adopted by a resolution of the Board on 8 January 2011. The purpose of the Scheme is to provide incentives or rewards to selected eligible participants for their contribution to the Group. The Scheme became effective on 28 January 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption of the scheme. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Eligible participants of the Scheme include the following:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Employee");

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (e) above.

As at the date of this report, the total number of shares of the Company available for issue under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commenced on the Stock Exchange, i.e. 100,000,000, representing 10% of the issued share capital of the Company as at the date of listing and at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to Shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 28 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the conditional adoption of the scheme by our shareholders subject to the provisions for early termination under the Scheme.

The subscription price for Shares under the Scheme shall be a price determined by the board of directors, but shall not be less than the highest of:

(i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and

(iii) the nominal value of the shares of the Company.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until 7 January 2021.

No option has been granted under the Scheme as at the date of this report.

Arrangement for directors to purchase shares or debentures

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

Dealings in the shares of the Company commenced on the Stock Exchange on 28 January 2011, which was later than the date of the statement of financial position. As of the date of this report, so far as was known to the directors, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Interests and short positions in the shares and underlying shares of our Group:

Name	Capacity/Nature of Interest	Number of shares	Approximate percentage of interest in the Company
Mr.Sze Ching Bor (1)	Interest in controlled corporation	519,035,767 (L)	51.90%
Ms. Tsang Shuk Ping (2)	Spousal interest	519,035,767 (L)	51.90%
Best Mark International Limited	Beneficial owner	473,876,157 (L)	47.39%
CITIC Capital China Mezzanine Fund Limited ("CITIC Capital")	Beneficial owner	85,325,500 (L)	8.53%
Multifield International Limited (3)	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Capital Investment Holdings Limited (4)	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Capital Holdings Limited (5)	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Group (6)	Interest in controlled corporation	85,325,500 (L)	8.53%
Warlord Investment Corporation (7)	Interest in controlled corporation	85,325,500 (L)	8.53%
China Investment Corporation (8)	Interest in controlled corporation	85,325,500 (L)	8.53%
The Royal Bank of Scotland N.V. (9)	Interest in controlled corporation	85,325,500 (L)	8.53%
The Royal Bank of Scotland Group plc. (10)	Interest in controlled corporation	85,325,500 (L)	8.53%
RBS Holdings N.V. (11)	Interest in controlled corporation	85,325,500 (L)	8.53%
RFS Holdings B.V. (12)	Interest in controlled corporation	85,325,500 (L)	8.53%

Notes:

(1) Mr.Sze Ching Bor is deemed to be interested in the Shares held by Best Mark International Limited and Capital Vision International Limited. Best Mark and Capital Vision are wholly owned and controlled by Mr.Sze and held 473,876,157 Shares and 45,159,610 Shares respectively, representing approximately 47.39% and 4.52%, respectively, of the issued share capital of the Company.

(2) Ms. Tsang Shuk Ping, the spouse of Mr.Sze, is deemed to be interested in Mr.Sze's interests in the Company.

(3) Multifield International Limited holds 100% of the sponsor shares in CITIC Capital and 33.3% of the participating shares in CITIC Capital. Accordingly, Multifield International Limited is deemed to be interested in the Shares in which CITIC Capital is interested for the purpose of Part XV of the SFO.

(4) CITIC Capital Investment Holdings Limited wholly owns Multifield International Limited and is deemed to be interested in the Shares in which Multifield International Limited is interested for the purpose of Part XV of the SFO.

(5) CITIC Capital Holdings Limited wholly owns CITIC Capital Investment Holdings Limited and is deemed to be interested in the Shares in which CITIC Capital Investment Holdings Limited is interested for the purpose of Part XV of the SFO.

(6) CITIC Group is deemed to be interested in the Shares in which CITIC Capital Holdings Limited is interested for the purpose of Part XV of the SFO through various intermediary holding companies which in aggregate hold 55% in CITIC Capital Holdings Limited.

(7) Warlord Investment Corporation owns 40% of the shareholding interests in CITIC Capital Holdings Limited. Accordingly it is deemed to be interested in the Shares in which CITIC Capital Holdings Limited is interested for the purpose of Part XV of the SFO.

(8) China Investment Corporation wholly owns Warlord Investment Corporation. Accordingly, it is deemed to be interested in the Shares in which Warlord Investment Corporation is interested for the purpose of Part XV of the SFO.

(9) The Royal Bank of Scotland N.V. owns 33.3% of the participating shares in CITIC Capital and accordingly is deemed to be interested in the Shares in which CITIC Capital is interested for the purpose of Part XV of the SFO.

(10) The Royal Bank of Scotland Group plc. is deemed to be interested in the Shares in which The Royal Bank of Scotland N.V. is interested for the purpose of Part XV of the SFO by virtue of its 97.7% shareholding in RFS Holdings B.V., which indirectly and wholly owns The Royal Bank of Scotland N.V. through a wholly-owned subsidiary, RBS Holdings N.V..

(11) RBS Holdings N.V. wholly owns The Royal Bank of Scotland N.V., it is deemed to be interested in the Shares in which The Royal Bank of Scotland N.V. is interested for the purpose of Part XV of the SFO.

(12) RFS Holdings B.V. wholly owned RBS Holdings N.V., it is deemed to be interested in the Shares in which RBS Holdings N.V. is interested for the purpose of Part XV of the SFO.

(13) The Letter "L" denotes the person's long position in the Shares of our Company.

Save as disclosed above, as at the date of this report, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Contracts with controlling shareholders

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2010.

Non-compete undertakings

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-compete undertakings that he/it provided to the Company on 8 January 2011. The independent non-executive directors have reviewed the status of compliance and confirmed that all of these non-compete undertakings have been complied with by the controlling shareholders.

Directors' interest in competing business

None of the directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2010 and up to and including the date of this annual report.

Emolument policy

The Group's emolument policies are based on the merit, qualifications and competence of individual employees 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 has adopted a share option scheme to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share option scheme" above and note 30 to the financial statements.

None of the directors waived any emoluments during the year.

Bank loans

Particulars of short-term bank loans of the Group as at 31 December 2010 are set out in note 25 to the financial statements. Other than such short-term bank loans, the Group had no other bank loans or borrowings.

Pension scheme

The employees of the Group's subsidiary which operates in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme.

Connected transactions

No connected transaction was entered into or in existence during the Year.

The related party transactions disclosed in note 35 to the financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public from the Listing Date to the date of this report.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year.

Events after the reporting period

Details of the significant events after the reporting period of the Group are set out in note 38 to the financial statements.

Closure of Register of Members

For the purpose of determining shareholders' entitlements to attend and vote at the annual general meeting, the transfer books and the register of members of the Company will be closed from 20 May 2011 to 23 May 2011 (both days inclusive), during which period no transfer of shares will be effected. In order to establish the right to attend and vote at the annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 19 May 2011.

Auditors

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

ZHENG Liuhe
Chairman

Hong Kong
28 March 2011

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG
安 永

To the shareholders of Baofeng Modern International Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Baofeng Modern International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

28 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	833,268	588,552
Cost of sales		(558,079)	(423,179)
Gross profit		275,189	165,373
Other income and gains, net	5	1,128	3,044
Selling and distribution costs		(65,449)	(26,927)
General and administrative expenses		(34,104)	(22,464)
Other operating expenses		(17,377)	(239)
Profit from operations		159,387	118,787
Finance costs, net	6	5,504	(14,493)
PROFIT BEFORE TAX	7	164,891	104,294
Income tax expense	10	(50,740)	(34,189)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	11	114,151	70,105
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
- Basic (RMB)		0.15	0.09
- Diluted (RMB)		0.14	0.09

Details of the dividends are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	114,151	70,105

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	49,336	49,874
Prepaid land lease payments	15	32,406	5,718
Deposits paid	16	—	28,260
Prepaid rent	17	1,239	3,718
Total non-current assets		82,981	87,570
CURRENT ASSETS			
Inventories	19	50,942	55,623
Trade receivables	20	80,839	97,241
Prepayments, deposits and other receivables	21	12,631	4,557
Value added tax recoverable		5,532	6,837
Cash and bank balances	22	327,881	178,504
Total current assets		477,825	342,762
CURRENT LIABILITIES			
Trade payables	23	42,924	45,227
Deposits received, other payables and accruals	24	35,627	11,894
Interest-bearing bank borrowings	25	39,625	54,500
Exchangeable note	26	58,485	80,348
Derivative component of exchangeable note	26	—	—
Amount due to a director	27	—	679
Amount due to a related company	27	—	170
Dividend payable	12	60,900	—
Tax payable		16,711	10,412
Total current liabilities		254,272	203,230
NET CURRENT ASSETS		223,553	139,532
TOTAL ASSETS LESS CURRENT LIABILITIES		306,534	227,102

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITY			
Deferred tax liabilities	28	—	3,500
Net assets		306,534	223,602
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	7	7
Reserves	31(a)	306,527	223,595
Total equity		306,534	223,602

ZHENG Liuhe
Director

CHEN Qingwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company							
			Reserves						
	Notes	Issued capital RMB'000 (note 29)	Share premium RMB'000	Contributed surplus RMB'000 (note 31(a))	Statutory surplus fund RMB'000 (note 31(a))	Exchange fluctuation reserve RMB'000 (note 31(a))	Retained profits RMB'000	Total reserves RMB'000	Total equity RMB'000
At 1 January 2009		7	—	63,511	24,619	155	65,205	153,490	153,497
Profit for the year and total comprehensive income for the year		—	—	—	—	—	70,105	70,105	70,105
Transfer to statutory surplus fund		—	—	—	8,987	—	(8,987)	—	—
At 31 December 2009 and 1 January 2010		7	—	63,511	33,606	155	126,323	223,595	223,602
Profit for the year and total comprehensive income for the year		—	—	—	—	—	114,151	114,151	114,151
Issue of shares	29	—	21,767	—	—	—	—	21,767	21,767
Interim dividend	12	—	—	—	—	—	(60,900)	(60,900)	(60,900)
Restructuring of exchangeable note	26	—	—	7,914	—	—	—	7,914	7,914
Transfer to statutory surplus fund		—	—	—	13,052	—	(13,052)	—	—
At 31 December 2010		7	21,767	71,425	46,658	155	166,522	306,527	306,534

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		164,891	104,294
Adjustments for:			
Interest income	5	(944)	(480)
Interest expenses	6	14,838	14,493
Depreciation	7	5,615	6,362
Amortisation of prepaid land lease payments	7	140	127
Amortisation of prepaid rent	7	4,958	2,479
Loss on disposal of items of property, plant and equipment	7	5	11
Waiver of maturity yield payment of exchangeable note	6	(20,342)	—
		169,161	127,286
Increase in prepaid rent		(2,479)	(8,676)
Decrease/(increase) in inventories		4,681	(19,035)
Decrease/(increase) in trade receivables		16,402	(14,675)
Increase in prepayments, deposits and other receivables		(7,490)	(62)
Decrease/(increase) in value added tax recoverable		1,305	(2,946)
Decrease in trade payables		(2,303)	(20,049)
Increase/(decrease) in deposits received, other payables and accruals		23,733	(3,087)
Increase in amount due to a director	32(a), 32(b)	21,088	679
Increase/(decrease) in amount due to a related company		(170)	170
Cash generated from operations		223,928	59,605
Interest received		944	480
PRC taxes paid		(47,941)	(28,470)
Net cash flows from operating activities		176,931	31,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(5,082)	(2,917)
Addition to prepaid land lease payments	15	(27,412)	(3,088)
Proceeds from disposal of items of property, plant and equipment		—	675
Decrease in deposits paid		28,260	—
Net cash flows used in investing activities		(4,234)	(5,330)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		74,275	119,500
Interest paid		(8,445)	(6,044)
Repayment of bank loans		(89,150)	(96,400)
Net cash flows from/(used in) financing activities		(23,320)	17,056
NET INCREASE IN CASH AND CASH EQUIVALENTS		149,377	43,341
Cash and cash equivalents at beginning of year		178,504	135,163
CASH AND CASH EQUIVALENTS AT END OF YEAR		327,881	178,504
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		327,881	178,504

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	18	368,082	364,547
CURRENT ASSETS			
Prepayments	21	5,735	—
Dividend receivable from a subsidiary	12	91,350	—
Total current assets		97,085	—
CURRENT LIABILITIES			
Other payables and accruals	24	11,698	1,358
Exchangeable note	26	58,485	80,348
Derivative component of exchangeable note	26	—	—
Due to a subsidiary	18	2,932	—
Dividend payable	12	60,900	—
Total current liabilities		134,015	81,706
NET CURRENT LIABILITIES		(36,930)	(81,706)
Net assets		331,152	282,841
EQUITY			
Issued capital	29	7	7
Reserves	31(b)	331,145	282,834
Total equity		331,152	282,841

ZHENG Liuhe
Director

CHEN Qingwei
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1. CORPORATE INFORMATION

Baofeng Modern International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's registered office is located at the office of Cricket Square , Hutchins Drive, P.O. Box 2681, Grand Cayman KY1 -1111, Cayman Islands. The Company's principal place of business is located in Huoju Industrial Zone, Quanzhou, Fujian Province, the People's Republic of China ("PRC"). 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 "Listing Date").

The Company was formerly known as BAOF International Limited and changed its name to Baofeng Modern International Holdings Company Limited on 22 May 2010.

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Best Mark International Limited ("Best Mark"), which was incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative component of the exchangeable note which is measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010
Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	Distributions of Non-cash Assets to Owners
Amendments to IFRS 5 included in *Improvements to IFRSs issued* in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in May 2009

The adoption of the new IFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First - time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First - time Adopters* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments* [6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard and interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers these new and revised IFRSs are unlikely to have a significant impact o the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its holding company;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of the lease terms and 20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years
Leasehold improvements	Over the shorter of the lease terms and 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under the operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade receivables, other receivables, and cash and bank balances.

Subsequent measurement
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, amounts due to a director and a related company, an exchangeable note, derivative component of exchangeable note and interest-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' rights to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Government grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Employee benefits

Pension scheme
The employees of the Group's subsidiary which operates in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension schemes. The contributions are charged to the income statements as they become payable in accordance with the rules of the central pension schemes.

Other benefits
The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchangeable note

Exchangeable note with embedded derivative features is split into liability, equity and derivative components according to their fair values for measurement purposes. On issuance of the exchangeable note, the fair values of the equity and derivative components are determined based on valuation. The fair value of the equity component is included in the shareholder's equity. The fair value of the derivative component is carried as a non-current liability until extinguished on exercise of the exchange right or redemption. The remainder of the proceeds is allocated to the liability component and is recognised as a non-current liability, net of the transaction costs. The carrying amount of the equity component is not remeasured in subsequent years. The derivative component is remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statement. The liability component is subsequently carried on the amortised cost basis until extinguished on exercise of the exchange right or redemption. Upon exercise of the exchange right, the liability component is extinguished, and results in an increase in the contributed surplus in shareholders' equity. Upon the occurrence of an event of default, the holder of exchangeable note may elect to require the Company to redeem all of the outstanding principal amount under the exchangeable note any time before the maturity date, the liability component and the derivative component of the exchangeable note is reclassified and presented as a current liability on the face of the statements of financial position. The restructuring of terms of the exchangeable note is a substantial modification which is accounted for as extinguishment of original financial liabilities and recognition of new financial liabilities. The difference between the carrying amounts of the financial liabilities extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Certain properties of the Group comprise a portion that is held to earn rentals and another portion that is held for use in the supply of goods and for administrative purposes. As the portion that is held to earn rentals is small and could not be sold separately and the portion that is held for use in supply of goods and for administrative purposes is significant, the properties are not classified as investment properties.

Accounting treatment of exchangeable note

The Group recognised a financial liability during the year in respect of the obligation to repay CITIC Capital (as defined in note 26) pursuant to the Agreement (as defined in note 26). The Group's management has assessed the terms of the Agreement and the facts and circumstances, and concluded that in respect of the funds contributed by CITIC Capital after netting off of the equity components and derivative component, the remainder is presented as a financial liability. The financial liability is recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, the financial liability is measured at amortised cost using the effective interest rate method.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

Impairment allowances for trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of the reporting period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, base upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the amount of unrecognised tax losses are set out in note 10 to these financial statements.

Valuation of exchangeable note

As described in note 26 to the financial statements, the exchangeable note includes an embedded derivative that is measured at fair value through profit and loss. The Company engaged an independent firm of professionally qualified valuers to assist in determining the fair value of the underlying embedded derivative. The fair value of the embedded derivative of the exchangeable note is determined using the binomial model. The significant inputs into the model included risk-free interest rate, exercise price, expected volatility of the underlying shares and term of maturity. When the actual results of the inputs differ from management's estimate, it will have an impact on the fair value gain or loss and the fair value of the derivative component of the exchangeable note.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

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

(c) the Baofeng branded products segment manufactures and trades Baofeng branded slippers ("Baofeng products").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax.

The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, other unallocated income and gains, finance costs, net, as well as corporate and unallocated expenses are excluded from such measurement. Segment assets exclude property, plant and equipment, prepaid land lease payments, deposits paid, prepaid rent, raw materials, work in progress, prepayments, deposits and other receivables, value added tax recoverable and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude trade payables, other payables and accruals, interest-bearing bank borrowings, exchangeable note (including derivative component), amounts due to a director and a related company, dividend payable, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2010	OEM RMB'000	Boree products RMB'000	Baofeng products RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	519,154	226,971	87,143	833,268
Segment results	136,042	46,342	27,356	209,740
Reconciliation:				
Interest income				944
Other unallocated income and gains				184
Corporate and other unallocated expenses				(51,481)
Finance income, net				5,504
Profit before tax				164,891
Segment assets	75,101	30,844	10,223	116,168
Reconciliation:				
Corporate and other unallocated assets				444,638
Total assets				560,806
Segment liabilities	—	1,200	1,200	2,400
Reconciliation:				
Corporate and other unallocated liabilities				251,872
Total liabilities				254,272

4. SEGMENT INFORMATION (continued)

Year ended 31 December 2009	OEM RMB'000	Boree products RMB'000	Baofeng products RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	467,908	85,860	34,784	588,552
Segment results	108,662	20,744	9,176	138,582
Reconciliation:				
Interest income				480
Other unallocated income and gains				2,428
Corporate and other unallocated expenses				(22,703)
Finance costs, net				(14,493)
Profit before tax				104,294
Segment assets	106,930	19,876	10,012	136,818
Reconciliation:				
Corporate and other unallocated assets				293,514
Total assets				430,332
Segment liabilities	110	700	750	1,560
Reconciliation:				
Corporate and other unallocated liabilities				205,170
Total liabilities				206,730

Geographical information

(a) Revenue from external customers

	2010 RMB'000	2009 RMB'000
PRC (principal place of operations)	686,270	436,933
United States of America	118,033	130,950
South America	8,861	2,577
South East Asia	7,327	5,374
Europe	3,652	3,990
Other countries	9,125	8,728
	833,268	588,552

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
PRC (principal place of operations)	82,981	87,570

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

4. SEGMENT INFORMATION (continued)

Information about major customers

For the reporting period ended 31 December 2010, none of the customers of the Group had individually accounted for over 10% of the Group's total revenue. For the reporting period ended 31 December 2009, revenue from two of the Group's OEM customers amounting to RMB81,502,000 and RMB59,335,000 had individually accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
Manufacture and sale of goods	833,268	588,552
Other income and gains, net		
Interest income	944	480
Rental income	188	255
Subsidy income *	712	2,081
Exchange loss, net	(684)	(28)
Others	(32)	256
	1,128	3,044

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

6. FINANCE COSTS, NET

	Group	
	2010 RMB'000	2009 RMB'000
Interest on bank loans repayable within five years	(2,927)	(1,913)
Interest expenses on exchangeable note	(11,911)	(12,580)
Waiver of maturity yield payment of exchangeable note	20,342	—
	5,504	(14,493)

7. PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold*	558,079	423,179
Depreciation*	5,615	6,362
Amortisation of prepaid land lease payments	140	127
Amortisation of prepaid rent*	4,958	2,479
Minimum lease payments under operating leases in respect of land and buildings*	5,016	1,050
Employee benefit expenses* (including directors' remuneration - note 8):		
Wages and salaries	77,669	65,871
Staff welfare	3,623	3,522
Pension scheme contributions**	7,425	3,368
	88,717	72,761
Auditors' remuneration	1,846	940
Loss on disposal of items of property, plant and equipment	5	11
Research and development costs ***	2,176	1,581

* The cost of inventories sold for the reporting period ended 31 December 2010 includes approximately RMB71,548,000 (2009: RMB66,458,000) relating to direct staff costs, depreciation of manufacturing facilities, amortisation of prepaid rent 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.

** At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

*** The research and development costs for the reporting period are included in "General and administrative expenses" on the face of the consolidated income statement.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the reporting period, disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Fees	306	—
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	1,235	648
Pension scheme contributions	2	2
	1,543	650

(a) Independent non-executive directors

Professor Bai Chang Hong, Mr. Lee Keung, Thomson and Ms. An Na were appointed as the independent non-executive directors of the Company on 30 June 2010. The fees paid or payable to independent non-executive directors during the reporting period are as follows:

	2010 RMB'000
Professor Bai Chang Hong	102
Mr. Lee Keung, Thomson	102
Ms. An Na	102
	306

There were no other emoluments payable to the independent non-executive directors during the reporting period. (2009: Nil).

(b) Non-executive directors

Mr. Cheung Miu and Mr. Sze Ching Bor ("Mr. Sze") were appointed as non-executive directors on 22 May 2010 and 30 June 2010, respectively. Prior to that, Mr. Cheung Miu was an executive director of the Company for the period from 22 September 2008 to 21 May 2010. There were no fees or other emoluments payable to them, neither as executive director nor as non-executive director, during the reporting periods ended 31 December 2010 and 2009.

8. DIRECTORS' REMUNERATION (continued)

(c) Executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Reporting period ended 31 December 2010				
Mr. Zheng Liuhe	—	329	—	329
Mr. Chen Qingwei	—	314	—	314
Mr. Zhang Aiguo	—	314	1	315
Mr. Zheng Jingdong	—	278	1	279
	—	1,235	2	1,237

There were no fees or other emoluments payable to Mr. Cheung Miu, who served as an executive director of the Company for the period from 1 January 2010 to 21 May 2010.

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Reporting period ended 31 December 2009				
Mr. Zheng Liuhe	—	180	—	180
Mr. Chen Qingwei	—	156	—	156
Mr. Zhang Aiguo	—	156	1	157
Mr. Zheng Jingdong	—	156	1	157
	—	648	2	650

There were no fees or other emoluments payable to Mr. Cheung Miu, who served as an executive director of the Company for the reporting period ended 31 December 2009.

There was no arrangement under which a director waived or agreed to waive any remuneration during the reporting period (2009: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2009: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining non-director, highest paid employee for the years are as follows:

	Group 2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	763	240

During the reporting period ended 31 December 2010, the remuneration of the non-director, highest paid employee fell within the band of RMB500,001 to RMB1,000,000 (2009: Nil to RMB500,000).

10. 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 reporting period (2009: Nil). Taxes on profits assessable in the Mainland China have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2010	2009
	RMB'000	RMB'000
Current - Mainland China		
Charge for the year	50,133	29,958
Underprovision in prior years	607	731
Deferred (note 28)	—	3,500
Total tax charge for the year	50,740	34,189

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before tax	164,891	104,294
Tax at the applicable tax rates	42,506	27,431
Adjustment in respect of current tax of prior years	607	731
Income not subject to tax	(3,356)	—
Expenses not deductible for tax	5,739	2,125
Tax losses not recognised	—	620
Effect of withholding tax of 10% on the distributable profits of the Group's PRC subsidiary	5,500	3,500
Others	(256)	(218)
Tax charge at the Group's effective rates	50,740	34,189

The Group has no significant unprovided deferred tax in respect of the reporting period and as at the end of the reporting period (2009: Nil).

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of RMB79,530,000 (2009: a loss of RMB14,618,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. DIVIDENDS

Interim dividend of HK$694 per ordinary share, amounting to HK$70,000,000 (equivalent to RMB60,900,000) (2009: Nil), was declared by the board of directors of the Company to shareholders on the register of members on 11 September 2010. The dividend payable will be paid to the shareholders of the Company upon receipt of a dividend receivable from a subsidiary of the Company as set out in note 18 to the financial statements.

The directors do not recommend a final dividend in respect of the reporting period ended 31 December 2010 (2009: Nil).

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to owners of the Company, and on the assumption that 750,000,000 (2009: 750,000,000) ordinary shares have been in issue throughout the years, comprising of 100,000 issued ordinary shares of the Company brought forward from prior year, 2,719 issued ordinary shares of the Company pursuant to the loan capitalisations and the capitalisation issue of 749,897,281 ordinary shares of the Company, as further detailed in note 29(a) to the financial statements.

The calculation of diluted earnings per share amounts is based on the consolidated profit for the year attributable to owners of the Company, adjusted to reflect the interest on the exchangeable note and waiver of maturity yield payment of exchangeable note, where applicable (see below). The number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the impact of the exchangeable notes outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2010 RMB'000	2009 RMB'000
Earnings		
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	114,151	70,105
Interest on exchangeable note	11,911	12,580
Less: Waiver of maturity yield payment of exchangeable note	(20,342)	—
Consolidated profit attributable to owners of the Company before interest on exchangeable note and wavier of maturity yield payment of exchangeable note	105,720	82,685

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2010	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:						
At 1 January 2010	42,383	18,751	6,097	2,452	1,817	71,500
Additions	2,860	472	—	1,750	—	5,082
Disposals	—	(4)	—	(35)	—	(39)
At 31 December 2010	45,243	19,219	6,097	4,167	1,817	76,543
Accumulated depreciation:						
At 1 January 2010	9,314	8,726	2,293	1,142	151	21,626
Provided during the year	2,013	1,810	1,002	427	363	5,615
Disposals	—	(1)	—	(33)	—	(34)
At 31 December 2010	11,327	10,535	3,295	1,536	514	27,207
Net carrying amount:						
At 31 December 2010	33,916	8,684	2,802	2,631	1,303	49,336

Group

31 December 2009	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:						
At 1 January 2009	42,383	18,663	6,532	2,095	—	69,673
Additions	—	1,392	—	357	1,817	3,566
Disposals	—	(1,304)	(435)	—	—	(1,739)
At 31 December 2009	42,383	18,751	6,097	2,452	1,817	71,500
Accumulated depreciation:						
At 1 January 2009	7,092	6,900	1,586	739	—	16,317
Provided during the year	2,222	2,503	1,083	403	151	6,362
Disposals	—	(677)	(376)	—	—	(1,053)
At 31 December 2009	9,314	8,726	2,293	1,142	151	21,626
Net carrying amount:						
At 31 December 2009	33,069	10,025	3,804	1,310	1,666	49,874

The Group's buildings are situated in Mainland China and are held under medium term leases.

At 31 December 2010, included in "Buildings" is a property for self-use with a carrying amount of approximately RMB8,000 (2009: RMB8,000) for which the Group has not yet obtained the building ownership certificates.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	5,837	5,624
Additions	27,412	340
Amortisation during the year	(140)	(127)
Carrying amount at 31 December	33,109	5,837
Current portion included in prepayments, deposits and other receivables	(703)	(119)
Non-current portion	32,406	5,718

The leasehold land is situated in Mainland China and the respective prepaid land lease payments are held under medium term leases.

16. DEPOSITS PAID

Pursuant to a letter of intent signed between Quanzhou Baofeng Shoes Co., Ltd. ("Quanzhou Baofeng"), a subsidiary of the Company, and The Land and Resource Department of Quanzhou（泉州市國土資源局）on 29 April 2008, deposits of RMB28,260,000 were paid in 2008 by Quanzhou Baofeng for the acquisition of a parcel of land in Quanzhou, Fujian Province, the PRC. In March 2010, the Group received the confirmation from The Land and Resource Department of Quanzhou（泉州市國土資源局）that the paid deposit of RMB28,260,000 was to be refunded to the Group. The Group received the refund of the entire amount of RMB28,260,000 in June 2010.

17. PREPAID RENT

	Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	6,197	—
Additions	2,479	8,676
Amortisation during the year	(4,958)	(2,479)
Carrying amount at 31 December	3,718	6,197
Current portion included in prepayments, deposits and other receivables	(2,479)	(2,479)
Non-current portion	1,239	3,718

Balance represents prepaid rent for leasing a production plant and office premises in Mainland China under an operating lease arrangement. The prepaid rent is amortised on the straight-line basis over the lease term of three years.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	303,650	303,650
Due from a subsidiary	64,432	60,897
	368,082	364,547

Particulars of the principal subsidiaries are set out as follows:

Name	Place of registration/ incorporation	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BAOF International Limited ("BAOF HK")	Hong Kong	HK$10,000	100	—	Investment holding
Quanzhou Baofeng*	PRC	RMB87,400,000	—	100	Manufacture and sale of slippers

* Quanzhou Baofeng is a wholly-foreign-owned enterprise under the law of the PRC.

The amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment. In the opinion of the directors, the balance is no not repayable within twelve months from the end of the reporting period. The carrying value of the amount due from a subsidiary is approximate to its fair value.

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

A dividend receivable from a subsidiary will be settled upon the approvals for the remittance of dividend declared by the subsidiary from the relevant authorities in Mainland China are obtained of which the approvals have been received in March 2011. In the opinion of the directors, the dividend receivable from a subsidiary will be settled within twelve months from the end of the reporting period.

All the Company's amounts due from a subsidiary as at 31 December 2010 and 31 December 2009, were pledged to CITIC Capital (as defined in note 26) to secure the Exchangeable Note and the New Exchangeable Note, which will be released and discharged upon the exchange of the New Exchangeable Note in full as further set out in note 26 to these financial statements.

19. INVENTORIES

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	5,492	5,871
Work in progress	10,121	10,175
Finished goods	35,329	39,577
	50,942	55,623

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months to its customers. 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. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within 3 months	80,839	89,988
3 to 6 months	—	7,253
	80,839	97,241

An aged analysis of the Group's trade receivables that are not considered to be impaired is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	80,839	89,988
Less than 3 months past due	—	7,253
	80,839	97,241

Receivables that were neither past due nor impaired mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group pledged trade receivables of approximately RMB33,904,000 (2009: RMB11,312,000) to secure the bank borrowing granted to the Group (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	12,076	4,555	5,735	—
Deposits	555	—	—	—
Other receivables	—	2	—	—
	12,631	4,557	5,735	—

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND BANK BALANCES

At 31 December 2010, the cash and bank balances of the Group denominated in RMB amounted to RMB327,881,000 (2009: RMB178,504,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within 3 months	42,924	45,227

The trade payables are non-interest-bearing and are normally settled on two to three months terms.

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits received	2,530	1,560	—	—
Other payables	22,863	2,173	10,897	1,358
Accruals	10,234	8,161	801	—
	35,627	11,894	11,698	1,358

Other payables are non-interest-bearing and have a credit term of two to three months.

25. INTEREST-BEARING BANK BORROWINGS

	Group	
	2010	2009
	RMB'000	RMB'000
Current		
Bank loans - unsecured	10,000	29,500
Bank loans - secured	29,625	25,000
	39,625	54,500
Analysed into:		
Bank loans repayable within one year	39,625	54,500

(a) The bank loans bore fixed interest rates ranging from:

Year ended 31 December 2010	2.957% - 5.576% per annum
Year ended 31 December 2009	4.374% - 5.310% per annum

(b) At 31 December 2010, certain of the Group's bank loans were secured by the pledge of the Group's trade receivables amounting to RMB33,904,000 (2009: RMB11,312,000).

(c) At 31 December 2009, the bank loans of RMB24,500,000 were guaranteed by泉州寶鑫合成革有限公司, a company beneficially owned by Mr. Sze. The bank loan was fully repaid on 21 December 2010 and accordingly, the guarantee was released before the Listing Date.

26. EXCHANGEABLE NOTE

Pursuant to the agreement entered into among CITIC Capital China Mezzanine Fund Limited (formerly known as CITIC Allco Investments Limited) ("CITIC Capital"), the Company and its shareholders (the "Shareholders") on 8 August 2008 (the "Agreement"), the Company issued an exchangeable note with a principal amount of US$10 million (the "Exchangeable Note") to CITIC Capital on 23 September 2008 (the "Original Issuance Date"). In addition, pursuant to the Agreement, the Company also issued to CITIC Capital one preference share (the "Preference Share") of the Company at a consideration of US$0.01 and one call option (the "Call Option") at nil consideration. Further details of the Preference Share are included in note 29 to the financial statements.

The Exchangeable Note gives CITIC Capital the right (the "Exchange Right") to exchange all or any part of the outstanding principal amount of the Exchangeable Note for issued and fully paid up ordinary shares of the Company, legally and beneficially owned by the Shareholders (the "Exchangeable Shares"). CITIC Capital can exercise the Exchange Right from time to time during the exchange period from the issuance date to the maturity date. The number of Exchangeable Shares to be transferred and delivered by the Shareholders to CITIC Capital will be determined by multiplying the total number of ordinary shares in issue at the date of exchange (the "Exchange Date") by the exchange ratio (the "Exchange Ratio"). The Exchange Ratio shall be adjusted from time to time with reference to the total net profit of the Group and the profit targets as mentioned in the Agreement for the reporting periods ended 31 December 2007, 2008, 2009 and 2010.

The Exchangeable Note shall mature on the third anniversary of the Original Issuance Date (the "Maturity Date"). The Maturity Date can be extended to the fourth anniversary of the Original Issuance Date at the absolute discretion of CITIC Capital (the "Maturity Date Extension Option").

26. EXCHANGEABLE NOTE (continued)

The Company shall redeem the Exchangeable Note on the Maturity Date at the full amount (the "Redemption Price"), which includes the outstanding principal of the Exchangeable Note being redeemed plus interest thereon calculated at the rate of 18% compounded on an annual basis from the Original Issuance Date to the Maturity Date. The Company is not entitled to redeem any part of the Exchangeable Note on or before Maturity Date.

The Company is obliged to pay interest on the Exchangeable Note semi-annually at a rate of 6% per annum for the first year from the Original Issuance Date and 8% per annum for each year thereafter until the date on which the Exchangeable Note has been exchanged or redeemed. Interest is computed on the basis of a 360-day year for the actual number of days lapsed.

On the Maturity Date, the Company shall pay to CITIC Capital, in addition to the outstanding principal amount, interest on the outstanding principal amount equivalent to the amount of interest at the rate of 18% deferred and compounded on an annual basis from the Original Issuance Date to the Maturity Date, less the aggregate amount of the interest that has been actually paid to CITIC Capital as for the Maturity Date.

Upon the occurrence of any event of default, CITIC Capital may elect to require the Company to redeem all of the outstanding principal amount under the Exchangeable Note, at a price equal to the Redemption Price. As long as CITIC Capital does not elect to require the Company to redeem the Exchangeable Note before the Maturity Date due to the occurrence of any event of default, the Company is obliged to pay interest at 6% per annum for first year and 8% per annum for each year thereafter plus default interest at 3% per annum until the Exchangeable Note is exchanged or redeemed, whichever date is earlier.

As an incentive to CITIC Capital to purchase the Exchangeable Note, the Shareholders agreed to grant to CITIC Capital the Call Option to purchase from each of the Shareholders all or part of the number of ordinary shares of the Company held by them (the "Call Shares") at a call price which is adjustable based on the pre-determined mechanism as stated below (the "Call Price"). Such Call Option shall be exercisable within a period of eighteen months commencing from the date on which all the amount under the Exchangeable Note has been fully redeemed. Initially, the Call Price is determined based on the adjusted net profit of the Group for the year ended 31 December 2007 and the total number of ordinary shares issued and outstanding. The Call Price shall be adjusted based on the total net profit of the Group for the reporting periods ended 31 December 2008, 2009 and 2010.

The Exchangeable Note with embedded derivative features are split into liability, equity and derivative components according to their fair values for measurement purposes. Upon recognition of the Exchangeable Note, the Exchange Right and the Call Option, which were granted by the Shareholders to CITIC Capital, were considered as deemed capital contribution to the Company and were accounted for as equity components. The Maturity Date Extension Option was accounted for as the derivative component. On issuance of the Exchangeable Note, the fair values of the equity and derivative components are determined based on a valuation. The fair values of the equity components are included in the shareholders' equity. The fair value of the derivative component is carried as a non-current liability until extinguished on exercise of the exchange right or redemption. The remainder of the proceeds is allocated to the liability component and is recognised as a non-current liability, net of the transaction costs. The carrying amounts of the equity components are not remeasured in subsequent years. The derivative component is remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statements. The liability component is subsequently carried on the amortised cost basis until extinguished on exercise of the Exchange Right or redemption.

26. EXCHANGEABLE NOTE (continued)

The Group breached the financial covenants of the Exchangeable Note during the reporting period ended 31 December 2008, so the Exchangeable Note, which originally matures in three years, becomes repayable on demand by CITIC Capital at any time at the principal amount of US$10 million plus interest thereon calculated at the rate of 18% (inclusive of 3% default interest) compounded on an annual basis from the Original Issuance Date. The difference between the nominal value of the Exchangeable Note and the carrying amount of the liability component at the date of breach of the financial covenants of RMB16,288,000 was recorded as interest expense in the income statement for the reporting period ended 31 December 2008. As at 31 December 2008 and 31 December 2009, the liability component and the derivative component of the Exchangeable Note were classified and presented as current liabilities in the statements of financial position.

In April 2010, the Company, the Shareholders and CITIC Capital agreed to restructure the terms of the Exchangeable Note. Amendments included:

(a) Since 22 April 2010, the Company is no longer liable to pay on the Maturity Date the interest on the outstanding principal amount equivalent to the amount of interest at the rate of 18% deferred and compounded on an annual basis from the Original Issuance Date to the Maturity Date, less the aggregate amount of interest that has been actually paid to CITIC Capital as of the Maturity Date (the "Maturity Yield Payment").

(b) The Shareholders assume the obligation to pay the Maturity Yield Payment on the Maturity Date if a qualified IPO has not been completed on or before the Maturity Date; or if CITIC Capital selects to require the Company to redeem all the outstanding amount of the Exchangeable Note upon event of default.

(c) If a qualified IPO occurs on or before the Maturity Date, CITIC Capital will no longer be entitled to receive the Maturity Yield Payment on the Maturity Date. The Company's obligation to pay the Maturity Yield Payment on the Maturity Date upon redemption of the Exchangeable Note even if a qualified IPO occurs on or before the Maturity Date is waived.

(d) CITIC Capital still entitles to the Exchange Right and the Call Option granted under the original Agreement but the Maturity Date Extension Option granted to CITIC Capital under the original Agreement is cancelled.

(e) CITIC Capital waives all of its rights, claims and/or remedies in respect of any prior breach of the financial covenants by the Company and of any event of default (as defined in the Agreement) that had happened before the date of restructuring of the terms of the Exchangeable Note (i.e., 22 April 2010), including without limitation its right or entitlement to payment of default interest. The obligation of the Company to pay the 3% default interest semi-annually for the period from the Original Issuance Date to the date of restructuring of the terms of the Exchangeable Note is waived.

The restructuring of the Exchangeable Note is accounted for as extinguishment of original financial liabilities and recognition of new financial liabilities. The Shareholders' assumption of obligation to pay the Maturity Yield Payment on the Maturity Date if a qualified IPO has not been completed on or before the Maturity Date is considered as capital contribution from the Shareholders upon the restructuring of the Exchangeable Note and is recorded as a net increase in contributed surplus of RMB7,914,000 in shareholders' equity. The waiver of the Company's obligation to pay CITIC Capital the Maturity Yield Payment on the Maturity Date upon redemption of the Exchangeable Note even if the qualified IPO occurs on or before the Maturity Date of fair value of RMB20,342,000 is credited to the income statement in the period when the restructuring of the financial liability occurs.

26. EXCHANGEABLE NOTE (continued)

The Exchangeable Note with revised terms (the "New Exchangeable Note") was split into liability and equity components according to their fair values for measurement purposes. Upon recognition of the New Exchangeable Note, the Exchange Right and the Call Option and the Shareholders' assumption of the Maturity Yield Payment, which were considered as deemed capital contribution to the Company, were accounted for as equity components. The fair value of the equity components is included in shareholders' equity. The liability component was recognised as a current liability upon recognition of the New Exchangeable Note as the Maturity Date is within twelve months from 31 December 2010. The carrying amount of the equity component of the New Exchangeable Note is not remeasured in subsequent years. The liability component is subsequently carried at the amortised cost basis until extinguished on exercise of the Exchange Right or redemption.

The fair values of the equity component of the Exchangeable Note at the Original Issuance Date, the fair values of the derivative component of the Exchangeable Note at the Original Issuance Date, 31 December 2008 and 31 December 2009, and the fair values of the equity and liability components of the New Exchangeable Note at 22 April 2010 were estimated by the directors with reference to the valuations performed by BMI Appraisals Limited, an independent firm of professionally qualified valuers, located at Suites 11-18, 31st Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, using the binomial model.

Exchangeable Note	Notes	RMB'000
Liability component at 31 December 2008		71,899
Interest expense for the year	6	12,580
Interest paid during the year		(4,131)
Liability component at 31 December 2009		80,348
Restructuring of the Exchangeable Note:		
Shareholders' assumption of the Maturity Yield Payment	31(a)(i), 31(b)	(7,914)
Waiver of the Maturity Yield Payment	6	(20,342)
Interest expense for the year	6	11,911
Interest paid during the year		(5,518)
Liability component at 31 December 2010		58,485
Derivative component at 31 December 2009		—

The Exchangeable Note and the New Exchangeable Note were secured by the following:

(i) pledge of all of the ordinary shares of the Company and its subsidiary, BAOF HK, and the 100% equity interest in Quanzhou Baofeng to CITIC Capital;

(ii) pledge by a fixed and floating charge over all of the assets of the Company and BAOF HK to CITIC Capital;

(iii) pledge of all the Company's amounts due from BAOF HK to CITIC Capital from time to time; and

(iv) pledge of all the BAOF HK's amounts due from Quanzhou Baofeng to CITIC Capital from time to time.

The above securities will be released and discharged upon the exchange of the New Exchangeable Note in full pursuant to the conditional release and discharge agreements entered between the Shareholders, the Company, BAOF HK and CITIC Capital on 17 January 2011. On 17 January 2011, CITIC Capital delivered an exchange notice to exercise the Exchange Right of the New Exchangeable Note in full. Further details have been disclosed in note 38(a) to these financial statements.

27. AMOUNTS DUE TO A DIRECTOR AND A RELATED COMPANY

Amounts due to a director and a related company were unsecured, interest-free and have no fixed term of repayment.

28. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2009, 31 December 2009 and 1 January 2010	3,500
Transferred to tax payable during the year	(3,500)
At 31 December 2010	—

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2010, the aggregate amounts of temporary differences associated with an investment in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised is approximately RMB185,146,000 (2009: RMB118,449,000).

29. SHARE CAPITAL

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

Shares

	2010 RMB'000	2009 RMB'000
Authorised:		
4,999,999 ordinary shares (2009: 4,999,999) of US$0.01 each	342	342
One preference share (2009: one) of US$0.01 each	—	—
	342	342
Issued and fully paid:		
102,719 ordinary shares (2009: 100,000) of US$0.01	7	7
One preference share (2009: one) of US$0.01 each	—	—
	7	7

The following changes in the Company's authorised and issued share capital took place during the period from 1 January 2009 to 31 December 2010, and subsequent to the reporting period up to 28 January 2011.

29. SHARE CAPITAL (continued)

(a) Ordinary shares

	Notes	Number of ordinary shares US$0.01 each	Nominal value of ordinary shares US$'000	Nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010		4,999,999	50	342
Preference share redesignated as ordinary share on 28 January 2011	(i)	1	—	—
Increase in authorised capital on 8 January 2011	(ii)	4,995,000,000	49,950	342,058
At 28 January 2011		5,000,000,000	50,000	342,400
Issued:				
At 1 January 2009, 31 December 2009 and 1 January 2010		100,000	1	7
Issue of shares pursuant to first loan capitalisation	(iii)	816	—	—
Issue of shares pursuant to second loan capitalisation	(iv)	1,903	—	—
		102,719	1	7
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	(v)	749,897,281	7,499	49,800
Pro forma issued capital as at 31 December 2010		750,000,000	7,500	49,807
Issuance of new shares on 28 January 2011	(vi)	250,000,000	2,500	16,603
At 28 January 2011		1,000,000,000	10,000	66,410

29. SHARE CAPITAL (continued)

(b) Preference shares

	Notes	Number of ordinary shares US$0.01 each	Nominal value of ordinary shares US$'000	Nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	(i)	1	—	—
Preference share redesignated as ordinary share on 28 January 2011	(i)	(1)	—	—
At 28 January 2011		—	—	—
Issued:				
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010		1	—	—
Preference share redesignated as ordinary share on 28 January 2011	(i)	(1)	—	—
At 28 January 2011		—	—	—

Notes:

(i) Pursuant to the written resolution of shareholders passed on 8 September 2008, one authorised but unissued ordinary share was redesignated as a redeemable preference share of par value US$0.01. This preference share was redeemed by the Company on 28 January 2011, immediate before the issue of new shares as detailed in (vi) below.

(ii) Pursuant to a written resolution passed on passed on 8 January 2011, the authorised share capital of the Company was increased from US$50,000 to US$50,000,000 by creation of 4,995,000,000 additional new shares of US$0.01 each following the redesignation as detailed in (i) above.

(iii) Pursuant to the first share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze dated 30 June 2010, 816 new ordinary shares of US$0.01 each of the Company were issued to Best Mark as a consideration for discharging the Group's obligation to repay the amount due to a director, Mr. Sze, of HK$10 million (equivalent to RMB8,707,000) at 30 June 2010. The first loan capitalisation resulted in an increase in issued share capital by RMB55 and share premium account by RMB8,707,000.

(iv) Pursuant to the second share subscription agreement signed among the parties described in (iii) above dated 21 December 2010, 1,903 new ordinary shares of US$0.01 each of the Company were issued to Best Mark as a consideration for discharging the Group's obligation to repay the amount due to a director, Mr. Sze, of HK$15 million (equivalent to RMB13,060,000) at 21 December 2010. The second loan capitalisation resulted in an increase in issued share capital by RMB126 and the share premium account by RMB13,060,000.

(v) 749,897,281 new shares of US$0.1 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of approximately RMB49,800,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 28 January 2010, in proportion to their respective shareholdings. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (vi) below.

(vi) In connection with the Company's initial public offering, 250,000,000 shares of US$0.1 each were issued at a price of HK$2.00 per share (equivalent to RMB1.71 per share) for a total cash consideration, before expenses, of approximately HK$500,000,000 (equivalent to RMB427,350,000). Dealings in these shares on the Stock Exchange commenced on 28 January 2011.

30. SHARE OPTION SCHEME

On 8 January 2011, the Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme became effective on 28 January 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share option have been granted since the adoption of the Scheme.

31. RESERVES

(a) Group

The amounts of the Group's reserves and movement therein for the current and prior reporting periods are presented in the consolidated statement of changes in equity.

(i) Contributed surplus

The contributed surplus represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the corporate reorganisation of the Group in preparation for the Listing over the consideration paid for acquiring these subsidiaries of RMB49,993,000 and the capital contribution from the Shareholders in the form of the Exchange Right and the Call Option granted to CITIC under the Exchangeable Note with aggregate carrying values of RMB13,518,000 as at Original Issuance Date (note 26).

Pursuant to the restructuring of terms of the Exchangeable Note in April 2010, further capital contribution from the Shareholders as the Shareholders assumed the obligation to pay the Maturity Yield Payment if a qualified IPO has not been completed on or before the Maturity Date in accordance with the terms of the New Exchangeable Note of RMB7,914,000 was recognised in the contributed surplus during the reporting period ended 31 December 2010 (note 26).

(ii) Statutory surplus fund

In accordance with the relevant regulations applicable in the PRC, the Group's subsidiary established in the PRC is required to transfer a certain percentage of its statutory annual profits after tax (after offsetting any prior period's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of its registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus fund may be used to offset against accumulated losses of the PRC subsidiary. The amount of the transfer is subject to the approval of the board of directors of the PRC subsidiary.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

31. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2009		—	317,161	(19,709)	297,452
Loss for the year		—	—	(14,618)	(14,618)
Total comprehensive income for the year		—	—	(14,618)	(14,618)
At 31 December 2009 and 1 January 2010		—	317,161	(34,327)	282,834
Profit for the year		—	—	79,530	79,530
Total comprehensive income for the year		—	—	79,530	79,530
Issue of shares	29	21,767	—	—	21,767
Restructuring of Exchangeable Note	26	—	7,914	—	7,914
Interim dividend	12	—	—	(60,900)	(60,900)
At 31 December 2010		21,767	325,075	(15,697)	331,145

The contributed surplus represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the corporate reorganisation of the Group in preparation for the Listing over the consideration paid for acquiring these subsidiaries of RMB303,643,000, and the capital contribution from the Shareholders in the form of the Exchangeable Right and the Call Option granted to CITIC Capital under the Exchangeable Note with an aggregate carrying value of RMB13,518,000 as at Original Issuance Date (note 26).

Pursuant to the restructuring of terms of the Exchangeable Note in April 2010, a further capital contribution from the Shareholders as the Shareholders assumed the obligation to pay the Maturity Yield Payment if a qualified IPO has not been completed on or before the Maturity Date in accordance with the terms of the New Exchangeable Note of RMB7,914,000 was recognised in the contributed surplus during the reporting period ended 31 December 2010 (note 26)

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) First loan capitalisation

Pursuant to the share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze, a director of the Company, dated 30 June 2010, 816 ordinary shares were issued to Best Mark as consideration for discharging the Group's obligation to repay the amount due to a director, Mr. Sze, of HK$10 million (equivalent to RMB8,707,000) at 30 June 2010.

(b) Second loan capitalisation

Pursuant to the share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze, dated 21 December 2010, 1,903 ordinary shares were issued to Best Mark as consideration for discharging the Group's obligation to repay the amount due to a director, Mr. Sze, of HK$15 million (equivalent to RMB13,060,000) at 21 December 2010.

33. OPERATING LEASE ARRANGEMENTS

The Group leases a production plant and office premises under operating lease arrangements. Leases for these properties are negotiated for terms of three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Within one year	2,479	2,479
In the second to fifth years, inclusive	1,239	3,718
	3,718	6,197

At the end of the reporting period, the Company did not have any significant operating lease arrangements.

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Contracted for commitment in respect of:		
- acquisition of land use rights	—	3,490
- advertising and consultancy services	518	480
- research and development	2,167	—
	2,685	3,970

At the end of the reporting period, the Company did not have any significant commitments.

35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the reporting period:

(a) 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited) guaranteed certain bank loans made available to the Group of RMB24,500,000 at 31 December 2009. 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited) is beneficially owned by Mr. Sze and Mr. Tsang Chin Tiong, a then director and a then shareholder of the Company. The bank loan was fully repaid on 21 December 2010 and accordingly, the guarantee was released.

(b) Compensation of key management personnel of the Group is as follows:

	2010 RMB'000	2009 RMB'000
Fees	—	—
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	1,235	648
Pension scheme contributions	2	2
	1,237	650

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2010 and 2009 are as follows:

Financial assets - loans and receivables

Group

	2010 RMB'000	2009 RMB'000
Trade receivables	80,839	97,241
Other receivables (note 21)	—	2
Cash and bank balances	327,881	178,504
	408,720	275,747

Company

	2010 RMB'000	2009 RMB'000
Due from a subsidiary (note 18)	64,432	60,897

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities at amortised cost

Group

	2010 RMB'000	2009 RMB'000
Trade payables	42,924	45,227
Other payables (note 24)	22,863	2,173
Interest-bearing bank borrowings	39,625	54,500
Exchangeable note	58,485	80,348
Due to a director	—	679
Due to a related company	—	170
	163,897	183,097

Company

	2010 RMB'000	2009 RMB'000
Other payables (note 24)	10,897	1,358
Exchangeable note	58,485	80,348
Due to a subsidiary (note 18)	2,932	—
	72,314	81,706

Financial liabilities at fair value through profit and loss - designated as such upon initial recognition

Group and Company

At 31 December 2009, the derivative component of exchangeable note, of which the carrying amount is nil, is classified as financial liabilities at fair value through profit and loss - designated as such upon initial recognition.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank borrowings, exchangeable note and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales transactions and financing denominated in United States dollars (the "USD").

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in USD rate %	Increase/ (decrease) in the Group's profit before tax RMB'000
2010		
If USD strengthens against RMB	5	(2,622)
If USD weakens against RMB	(5)	2,622
2009		
If USD strengthens against RMB	5	(2,280)
If USD weakens against RMB	(5)	2,280

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

Interest rate risk

The Group does not have any significant exposure to risk of changes in market interest rates as the Group's debt obligations were all with fixed interest rates.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The table below summarises the maturity profile of the Group's financial liabilities as at end of the reporting period, based on the contractual undiscounted payments.

On demand and within 1 year

Group

	2010 RMB'000	2009 RMB'000
Trade payables	42,924	45,227
Other payables (note 24)	22,863	2,173
Interest-bearing bank borrowings	40,158	55,822
Exchangeable note	73,205	107,454
Due to a director	—	679
Due to a related company	—	170
	179,150	211,525

Company

	2010 RMB'000	2009 RMB'000
Other payables (note 24)	10,897	1,358
Exchangeable note	73,205	107,454
Due to a subsidiary (note 18)	2,932	—
	87,034	108,812

Commodity price risk

The major raw materials used in the production of the Group's products include rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the reporting periods ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital plus total debt. Total debt includes interest-bearing bank borrowings, trade payables, deposits received, other payables and accruals, exchangeable note and amounts due to a director and a related company. Capital includes equity attributable to owners of the Company.

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables	42,924	45,227
Deposits received, other payables and accruals	35,627	11,894
Interest-bearing bank borrowings	39,625	54,500
Exchangeable note	58,485	80,348
Due to a director	—	679
Due to a related company	—	170
Total debt	176,661	192,818
Equity attributable to owners of the Company	306,534	223,602
Total equity plus total debt	483,195	416,420
Gearing ratio	37%	46%

38. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in these financial statements, the Company had the following events after the reporting period:

(a) On 17 January 2011, CITIC Capital delivered an exchange notice to the Shareholders to exercise the Exchange Right of the New Exchangeable Note in full subject to certain conditions as detailed in the Company's prospectus dated 18 January 2011. The New Exchangeable Note was fully exercised on 28 January 2011. Accordingly, the liability component of the New Exchangeable Note at the date of exchange was extinguished and resulted in an increase in the contributed surplus in shareholders' equity.

(b) On 28 January 2011, the shares of the Company were listed on the Stock Exchange.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2011.