宝峰

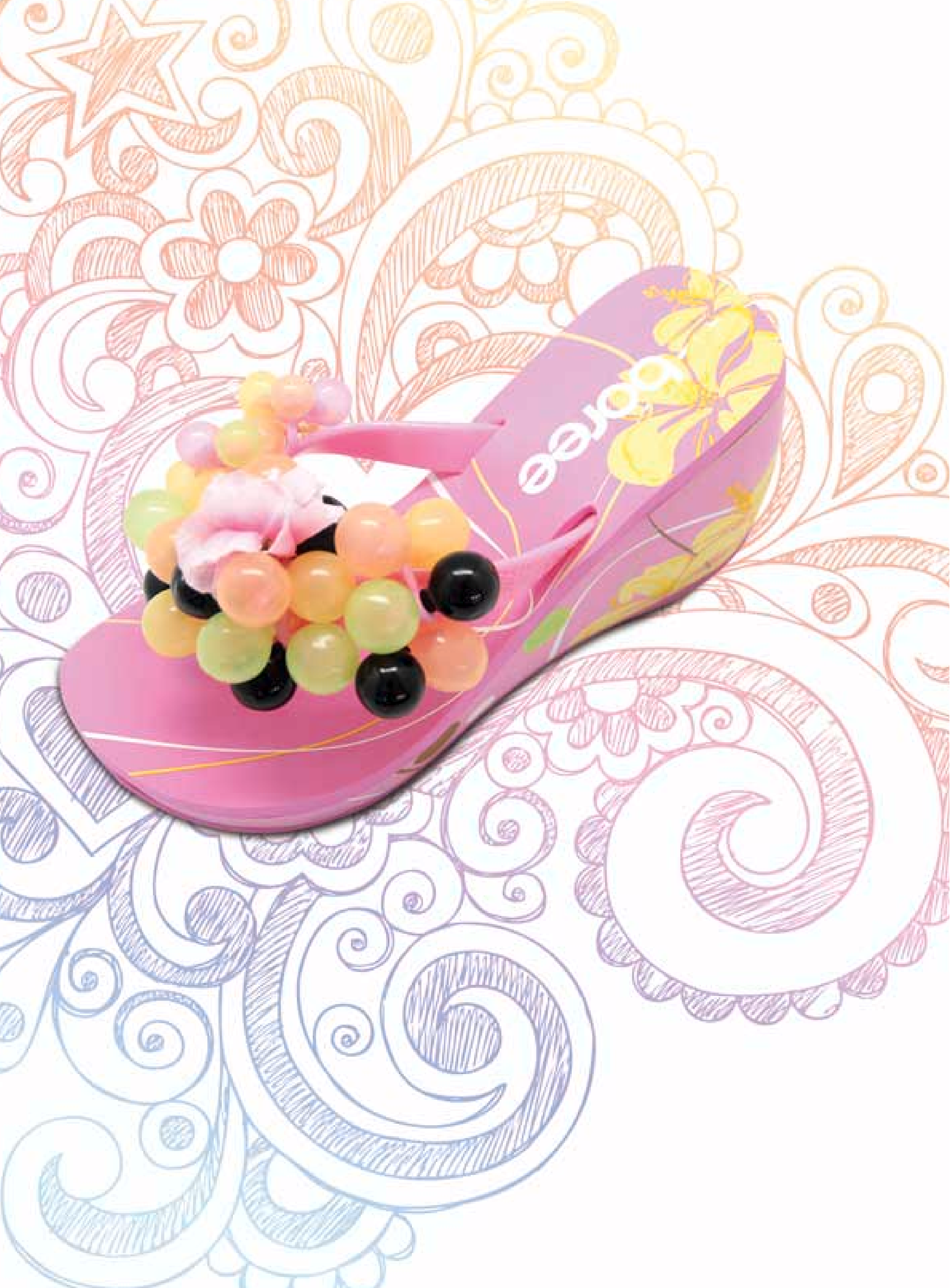
BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED

寶 峰 時 尚 國 際 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 1121


# 2011
# INTERIM REPORT



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# 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**

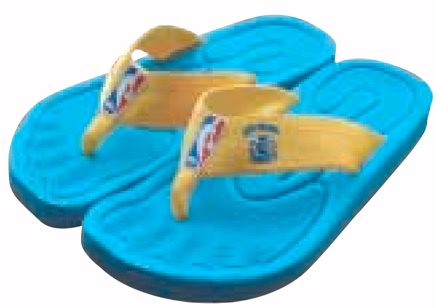
Mr. LEE Keung (Chairperson)
Professor BAI Changhong
Ms. AN Na

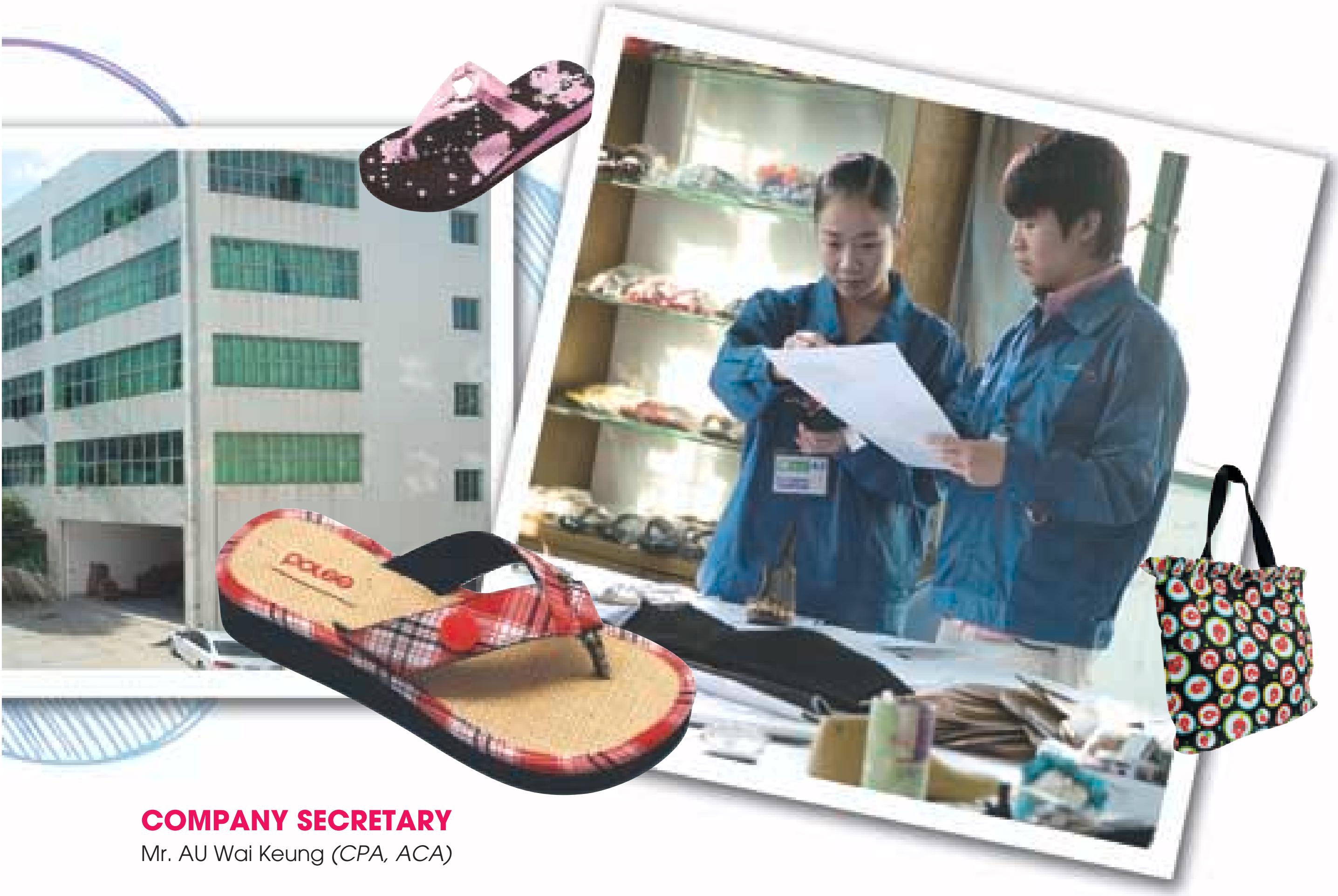
**Remuneration Committee**

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
20/F, The Pemberton
22-26 Bonham Strand
Sheung Wan
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

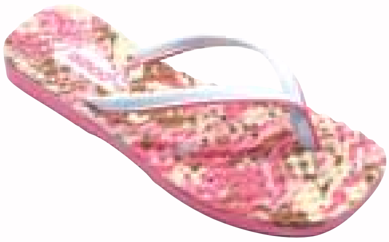
## LEGAL ADVISER
Orrick, Herrington & Sutcliffe

## COMPLIANCE ADVISER
Cinda International Capital Limited

## PRINCIPAL BANKERS
China Bank of Construction
Bank of China

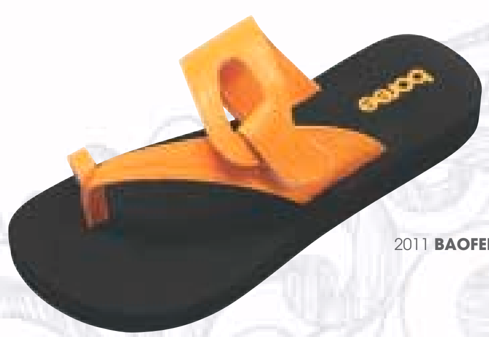
# FINANCIAL HIGHLIGHTS


| | 6 months ended 30 June 2011 RMB'000 (unaudited) | 2010 RMB'000 (unaudited) | Increase/ (decrease) % Change |
|---|---|---|---|
| Revenue (Total) | **594,920** | 458,008 | 29.9% |
| Revenue (Boree Products) | **203,855** | 111,386 | 83.0% |
| Revenue (Baofeng Products) | **80,623** | 46,598 | 73.0% |
| Revenue (OEM Business) | **310,442** | 300,024 | 3.5% |
| Gross Profit | **197,516** | 153,207 | 28.9% |
| Profit for the Period | **95,017** | 84,172 | 12.9% |
| Total Assets | **1,324,176** | 509,289 | 160.0% |
| Shareholders' Equity | **868,192** | 324,395 | 167.6% |

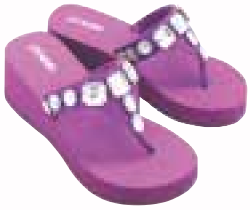


# FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | (unaudited) | (unaudited) |
| **Profitability data (RMB million)** | | |
| Revenue | 594.9 | 458.0 |
| Gross profit | 197.5 | 153.2 |
| Operating profit | 135.5 | 106.1 |
| Profit for the Period | 95.0 | 84.2 |
| **Profitability ratios (%)** | | |
| Gross profit margin | 33.2% | 33.4% |
| Operating profit margin | 22.8% | 23.2% |
| Net profit margin | 16.0% | 18.4% |
| Return on average total shareholders' equity | 10.9% | 26.0% |
| **Operating ratios (as a percentage of revenue) (%)** | | |
| Advertising and marketing expenses | 2.8% | 3.6% |
| **Assets and liabilities data (RMB million)** | | |
| Non-current assets | 112.2 | 80.9 |
| Current assets | 1,212.0 | 428.4 |
| Current liabilities | 453.2 | 119.3 |
| Non-current liabilities | 2.8 | 65.6 |
| Shareholders' equity | 868.2 | 324.4 |
| **Asset and Working Capital data (%)** | | |
| Current asset ratios | 91.5% | 84.1% |
| Gearing ratios | 33.5% | 33.3% |

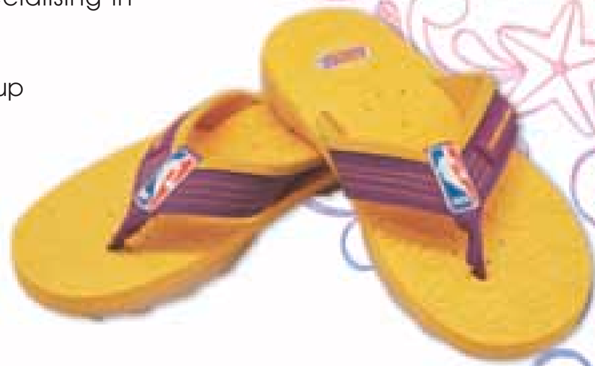


# MANAGEMENT DISCUSSION AND ANLYSIS



# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a well known supplier of casual footwear, specialising in fashionable sandals and slippers.



During the six months ended 30 June 2011 (the "Period"), the Group continued to maintain robust growth in both its revenue and profits. The rapid growth was driven by our outstanding business performance in our branded products, namely "Boree" and "Baofeng". The revenue from the branded business increased from RMB158.0 million for the six months ended 30 June 2010 to RMB284.5 million for the six months ended 30 June 2011. The branded products represented 47.8% of total revenue (2010: 34.5%) for the period ended 30 June 2011.

In addition, the Group has been selected as a licensed manufacturer and retailer of slippers for the International Horticultural Exposition 2011 Xi'an, China. A series of expo-themed products at the expo site have been produced and sold by the Group. This is another similar event the Group participated in after we were named a licensed manufacturer and retailer for the Shanghai World Exposition 2010.

## BUSINESS REVIEW

### Boree

The Boree brand targets the medium-to-high end market with fashionable sandals and slippers being offered. Revenue generated from Boree continued to be the Group's key growth driver, increased by 83.0% to RMB203.9 million during the Period as compared with that of the corresponding period last year (2010: RMB111.4 million).

The number of sales points of Boree products has significantly increased from 451 as at 30 June 2010 to 541 as at 30 June 2011. The Group has a well-established nationwide distribution network that boosted the sales of Boree products and increased the market share during the Period under reviewed.

A flagship store for the Boree brand was opened in Beijing in April 2011. To facilitate the brand promotion, more flagship stores will be opened in Guangzhou, Shenzhen, Hong Kong and Shanghai.

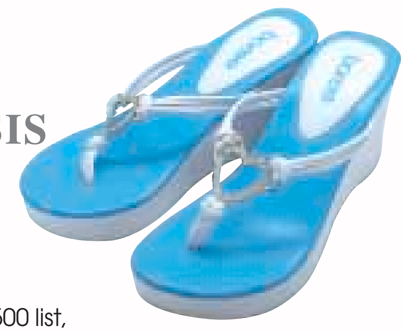
### Baofeng

Our Baofeng brand targets the budget-to-medium market and offers slippers with traditional function. Revenue generated from Baofeng recorded remarkable growth with an increase of 73.0% to RMB80.6 million during the Period from RMB46.6 million of the corresponding period in 2010.

### NBA branded products

The Group formed an exclusive three year partnership with NBA China in May 2011. As a result of the partnership, a line of NBA branded flip flops, slippers and sandals will be launched in China. The flip flops, slippers and sandals with features of NBA team logos and mascots will be available for adults and children. The Group will manufacture, distribute, sell, advertise, and promote such flip flops, slippers and sandals through retail networks in mainland China, Hong Kong and Macau.

The cooperation with NBA China will enhance the Group's market image and we target to cooperate with more well-known foreign organizations in the future. The partnership will further broaden our line of products.



### Original Equipment Manufacturer (the "OEM") business

Our OEM business has included customers that are selected on the Fortune Global 500 list, and we also produced OEM products for various globally renowned brands. Revenue generated from the OEM business during the Period recorded encouraging growth with an increase of 3.5% to RMB310.4 million as compared with that of the corresponding period last year (2010: RMB300.0 million).

## FINANCIAL REVIEW

### Revenue by product category

| | For the six months ended 30 June | | Increase/ (decrease) |
|---|---|---|---|
| | **2011** | 2010 | % Change |
| | **RMB'000** | RMB'000 | |
| | **(unaudited)** | (unaudited) | |
| Revenue (Total) | **594,920** | 458,008 | 29.9% |
| Revenue (Boree Products) | **203,855** | 111,386 | 83.0% |
| Revenue (Baofeng Products) | **80,623** | 46,598 | 73.0% |
| Revenue (OEM business) | **310,442** | 300,024 | 3.5% |

For the Period under review, the revenue of the Group increased by 29.9% to RMB594.9 million. Revenue from Boree and Baofeng brands increased by 83.0% to RMB203.9 million and 73.0% to RMB80.6 million, respectively, in the Period as compared with those of the corresponding period last year. The robust growth is partly attributable to the rapid expansion of the Group's distribution networks and satisfactory performance of our branded business. The business growth from the OEM business remains stable and the revenue from the OEM business increased by 3.5% to RMB310.4 million for the Period as compared with that of the corresponding period last year.

### Selling and distribution costs

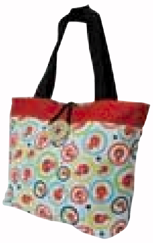
Selling and distribution costs increased by 5.6% to RMB31.9 million during the Period under review (2010: RMB30.2 million), primarily due to our aggressive advertising and marketing expenses.

### General and administrative expenses

General and administrative expenses increased by 96% to RMB29.6 million during the Period under review (2010: RMB15.1 million) as compared with that of the corresponding period last year, mainly due to the increase in staff cost and professional fees subsequent to the Group's listing, an once-off incentive bonus to staff upon listing and the newly imposed city construction tax and education surcharges by the PRC tax bureau since December 2010, the amount we paid for the Period is in a sum of RMB4.2 million.

### Liquidity and financial resources

During the Period, net cash inflow from operating activities of the Group amounted to RMB32.7 million (2010: RMB71.0 million). As at 30 June 2011, cash and bank balances together with pledged bank deposits were RMB1,030.5 million, representing a net increase of 214.3% as compared to RMB327.9 million as at 31 December 2010. The huge increase is mainly attributable to the net proceeds we raised in relation to our initial public offering in January 2011. The interest-bearing bank borrowings of the Group as at 30 June 2011 was in a sum of RMB 372.4 million (31 December 2010: RMB 39.6 million). All bank loans are repayable within one year.





### Pledge of assets

As at 30 June 2011, the Group secured its bank borrowings by the pledge of the Group's bank deposits amounting to RMB379.8 million. 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. During the period ended 30 June 2011, the respective bank borrowing was fully repaid and the pledged trade receivables were released.

### Capital commitment and contingent liabilities

As at 30 June 2011, the Group had contracts for commitment of advertising and consultancy contract of RMB0.3 million and the acquisition of building of RMB5.3 million. As at 30 June 2011, the Group did not have any material contingent liabilities.

### Profit attributable to shareholders

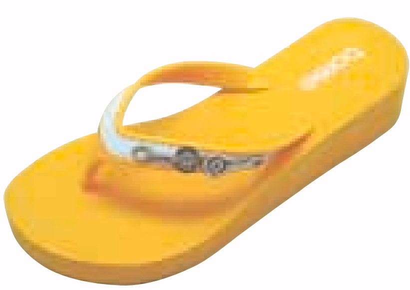
For the Period under review, the total condensed consolidated profit attributable to the owners of the Company amounted to RMB95.0 million, representing an increase of 12.9% in comparison to that of the corresponding period last year (2010: RMB84.2 million).

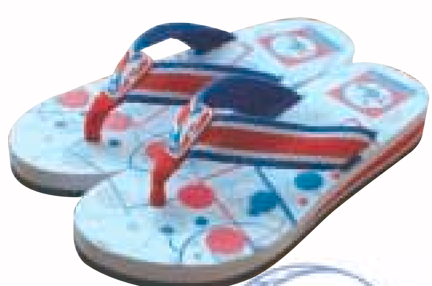
As compared with the financial figures for the Period and the corresponding period in 2010, there was a significant non-recurring item affecting the net profit of the Group, namely the "finance cost/income from exchangeable note, net".

The details are set out as the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit for the Period attributable to owners of the Company | **95,017** | 84,172 |
| Adjustment for finance cost/(income) from exchangeable note, net | **1,210** | (13,029) |
| Profit from core operation | **96,227** | 71,143 |
| Growth | **35.3%** | |

Taking into account the above significant non-recurring items, the profit from the core operations for the Period is in a sum of RMB96.2 million, representing a 35.3% increase as compared with that of the corresponding period in 2010 (2010: RMB71.1 million).





**Foreign exchange risk**

During the Period under review, the sales of the Group were mainly denominated in US dollars and Renminbi. The cost of sales and operating expenses were mainly denominated in Renminbi. The Group did not hedge any exposure in foreign currency risk during the Period under review. However, management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure should the need arises.

**Gearing ratio**

As at 30 June 2011, the gearing ratio of the Group was 33.5%. (as at 31 December 2010: 36.6%). 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 30 June 2011, the Group had a total of 2,511 employees (as at 31 December 2010: 2,382 employees).

**Use of net proceeds from the share offering**

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") with net proceeds received by the Company from the share offering of HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilization of the net proceeds as at 30 June 2011 is set out as follows:

| Nature | Amount raised RMB'000 | Amount utilized RMB'000 |
|---|---|---|
| To increase production capacity | 135,683 | 32,549 |
| Marketing and advertising expenses | 96,917 | 19,461 |
| To acquire other branded product business | 58,150 | — |
| To strengthen design capability | 19,383 | 80 |
| To establish flagship shops and showrooms | 19,383 | — |
| To strengthen the distribution resource planning system | 19,383 | 690 |
| General working capital | 38,767 | 38,767 |
| Total: | 387,666 | 91,547 |

## FUTURE PROSPECTS

Looking forward, the Group is committed to continuously expanding our Boree and Baofeng branded businesses and maintaining our prominence in the casual footwear market in the PRC through our five key business strategies. We will continue to 1) develop our branded product business with a focus on marketing and promotions; 2) strengthen our design capability; 3) explore and capitalize on potential market opportunities in other Asian countries and strive to replicate our success in other high-growth cities in the future; 4) enhance our production capacity; and 5) upgrade our information system with details as follows:

Firstly, we will continue to develop the branded product business to secure our prominence and increase recognition in the PRC casual footwear market. With the success of Boree brand, we will continue to promote the brand in the medium-to-high end market, to secure our identity as a brand which places emphasis on fashion and trends, and to explore opportunities establishing a market presence in Asia.

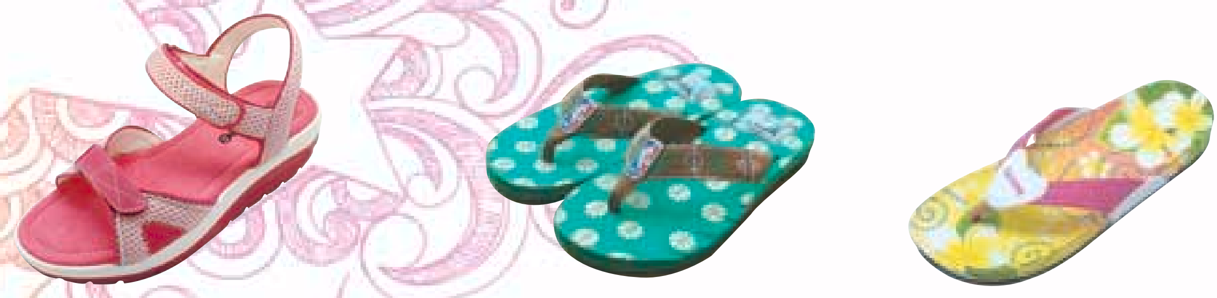
In order to further diversify our product portfolio, the Group has entered a three year partnership with NBA China. The NBA branded products will be one of our focuses in the coming years. The partnership with NBA China will further broaden our line of products and help the Group achieve sustainable business growth by reaching more consumers through the NBA's growing fan base.

Going forward, the Group will continue to explore opportunities in cooperating with other well-known international and domestic brands, thus further enhancing our brand image.

Secondly, we will strengthen our design capability. We believe that strengthening our design capability must go hand-in-hand with our plan to shift the business towards developing our branded products. The success of our branded products depends on our ability to produce a wide variety of designs in line with fashion trends. We will continue to get in touch with global trends and offer special sandal and slipper designs by organizing international design competitions, engaging an external design house in Italy and collaborating with an external research centre in Dongguan, China.

Thirdly, we will continue to explore expansion opportunities. In the domestic market, we intend to encourage and facilitate distributors to set up flagship stores and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong in order to increase our market coverage. In overseas markets, we strive to explore growth opportunities in Asia and other overseas markets. The management considers there are enormous opportunities in South East Asia, since people often wear slippers in such hot and humid climates. We expect that our presences in Philippines will be established in 2011. The Group will continue to expand its geographical coverage and increase market penetration in the PRC's casual footwear market.

Fourthly, the Group intends to expand and improve its production capacity. Due to our competitive edge in the branded product businesses and the overall growing demand for slippers, the Group will continue to expand and improve production capacity in order to meet growing demand. We plan to build additional production facilities in the coming years and expect to increase our total capacity significantly.



Lastly, we will strengthen our information systems to monitor the performance of distributors. We believe that the upgrades of our Enterprise Resource Planning ("ERP") system and Distribution Resource Planning ("DRP") system will enhance our sales growth and develop distribution strategies with accurate information.

The PRC's casual footwear industry has been growing steadily in recent years, and the fashionable slipper and sandal market is still in its early growth stage. As the industry is benefiting from urbanization, rising disposable incomes of urban households and retail sales in the PRC, we are confident that the Group has entered into a period of rapid growth and the results in the coming years will continue to be encouraging.

## CORPORATE GOVERNANCE

The Company was listed on the Listing Date. The Directors consider that since the Listing Date and up to the date of this report, the Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules.

### 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 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the code of conduct and required standards set out in the Model Code throughout the period from the Listing Date and up to the date of this report.

### 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 the Listing Date. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities throughout the period from the Listing Date and up to the date of this report.

### 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 three members, all being independent non-executive Directors.

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011.

## OTHER INFORMATION

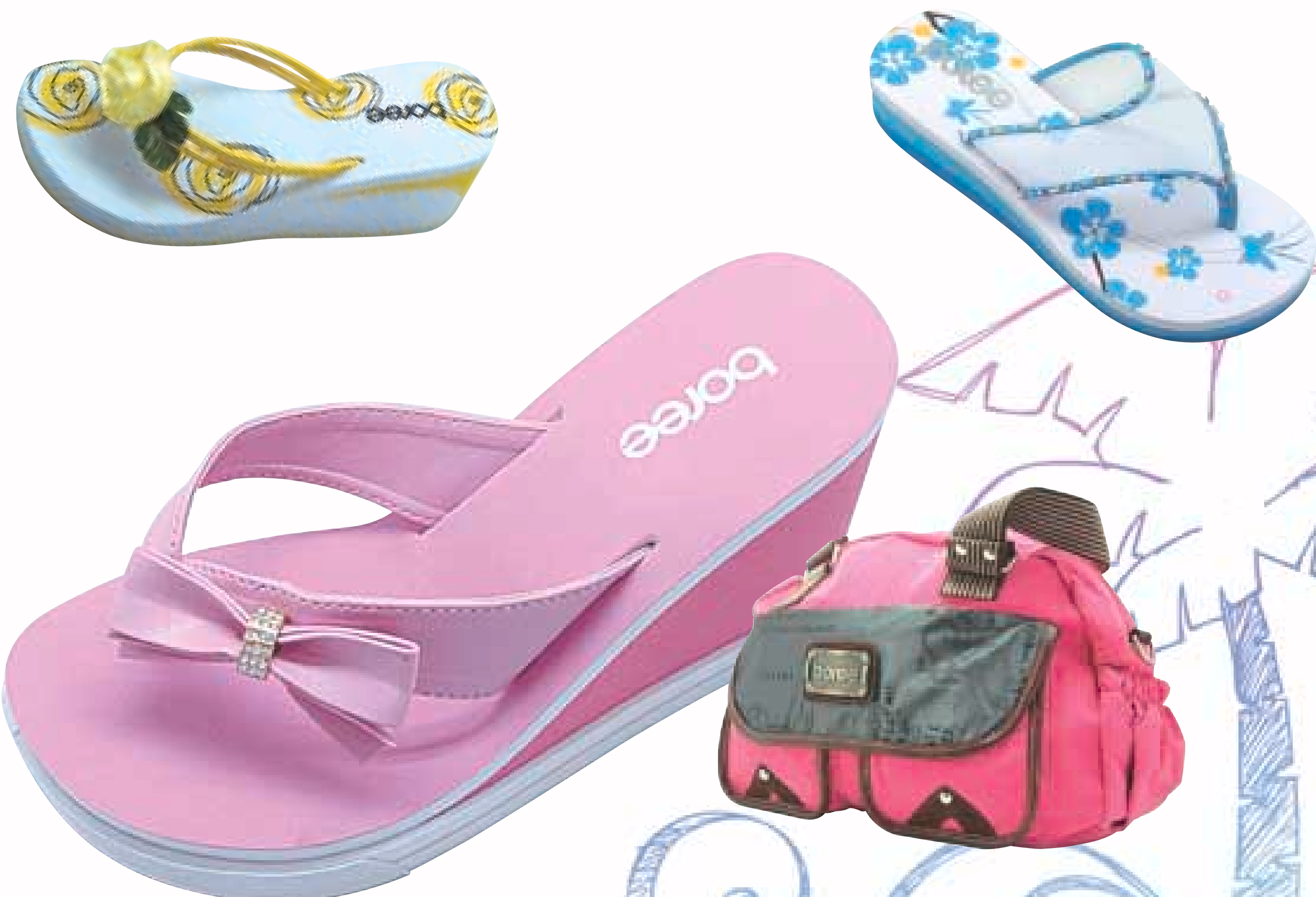
### Interim Dividend

The Board has resolved to pay an interim dividend of HK$0.02 per share. The interim dividend will be distributed on or around 14 October 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 23 September 2011.

### Closure of Register of Members

The register of members of the Company will be closed from 21 September 2011 to 23 September 2011, both days inclusive, during which period no transfer of the shares will be registered. In order to qualify for the interim dividend payable on or around 14 October 2011, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company´s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen´s Road East, Hong Kong before 4:30 p.m. on 20 September 2011.

Hong Kong, 29 August 2011



# SUPPLEMENTARY INFORMATION

## 1 Details of share options

### 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 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 30 June 2011, 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 Listing Date 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.

## 2 Disclosure of interests

As at 30 June 2011, 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 | 51.90% |

Save as disclosed above, as at 30 June 2011, 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.

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

As at 30 June 2011, 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 ("Mr. Sze") is deemed to be interested in the shares of the Company (the "Shares") held by Best Mark International Limited ("Best Mark") and Capital Vision International Limited ("Capital Vision"). 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 owns 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.

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of directors (the "Board" or "Directors") of Baofeng Modern International Holdings Company Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2011 together with the unaudited comparative figures for the corresponding period in 2010 and the relevant explanatory notes as set out below. The condensed consolidated results are unaudited, but have been reviewed by the audit committee of the Company.

| | Notes | Six months ended 30 June 2011 RMB'000 (unaudited) | 2010 RMB'000 (unaudited) |
|---|---|---|---|
| **REVENUE** | 4 | 594,920 | 458,008 |
| Cost of sales | | (397,404) | (304,801) |
| **Gross profit** | | 197,516 | 153,207 |
| Other income and gains | 4 | 3,241 | 865 |
| Selling and distribution costs | | (31,883) | (30,243) |
| General and administrative expenses | | (29,575) | (15,106) |
| Other operating expenses | | (3,755) | (2,661) |
| Profit from operations | | 135,544 | 106,062 |
| Finance costs, net | 5 | (5,019) | 11,437 |
| **PROFIT BEFORE TAX** | 6 | 130,525 | 117,499 |
| Income tax expense | 7 | (35,508) | (33,327) |
| **PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | 95,017 | 84,172 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 9 | | |
| – Basic (RMB) | | 0.10 | 0.11 |
| – Diluted (RMB) | | 0.10 | 0.09 |

Details of the dividend are disclosed in note 8 to the condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY | 95,017 | 84,172 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

| | Notes | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 52,228 | 49,336 |
| Prepaid land lease payments | | 32,300 | 32,406 |
| Deposits paid for the land use right and the acquisition of building | | 27,678 | — |
| Prepaid rent | | — | 1,239 |
| Total non-current assets | | 112,206 | 82,981 |
| **CURRENT ASSETS** | | | |
| Inventories | | 43,600 | 50,942 |
| Trade receivables | 10 | 123,857 | 80,839 |
| Prepayments, deposits and other receivables | | 13,971 | 12,631 |
| Value added tax recoverable | | — | 5,532 |
| Pledged bank deposits | 12 | 379,810 | — |
| Cash and bank balances | | 650,732 | 327,881 |
| Total current assets | | 1,211,970 | 477,825 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 11 | 44,200 | 42,924 |
| Deposits received, other payables and accruals | | 20,468 | 35,627 |
| Value added tax payable | | 776 | — |
| Interest-bearing bank borrowings | 12 | 372,352 | 39,625 |
| Exchangeable note | 13 | — | 58,485 |
| Dividend payable | | — | 60,900 |
| Tax payable | | 15,370 | 16,711 |
| Total current liabilities | | 453,166 | 254,272 |
| **NET CURRENT ASSETS** | | 758,804 | 223,553 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 871,010 | 306,534 |
| **NON-CURRENT LIABILITY** | | | |
| Deferred tax liabilities | | 2,818 | — |
| Net assets | | 868,192 | 306,534 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | 14 | 66,410 | 7 |
| Reserves | | 801,782 | 306,527 |
| Total equity | | 868,192 | 306,534 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the six months ended 30 June 2010**

| | Notes | Issued capital RMB'000 | Share premium RMB'000 | Contributed surplus RMB'000 | Statutory surplus fund RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total reserves RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | |
| | | | Reserves | | | | | | |
| At 1 January 2010 (audited) | | 7 | — | 63,511 | 33,606 | 155 | 126,323 | 223,595 | 223,602 |
| Profit for the period and total comprehensive income for the period | | — | — | — | — | — | 84,172 | 84,172 | 84,172 |
| Issue of shares | 14 | — | 8,707 | — | — | — | — | 8,707 | 8,707 |
| Restructuring of exchangeable note | 13 | — | — | 7,914 | — | — | — | 7,914 | 7,914 |
| Transfer to statutory surplus fund | | — | — | — | 7,889 | — | (7,889) | — | — |
| At 30 June 2010 (unaudited) | | 7 | 8,707 | 71,425 | 41,495 | 155 | 202,606 | 324,388 | 324,395 |

**For the six months ended 30 June 2011**

| | Notes | Issued capital RMB'000 | Share premium RMB'000 | Contributed surplus RMB'000 | Statutory surplus fund RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total reserves RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | |
| | | | Reserves | | | | | | |
| At 1 January 2011 (audited) | | 7 | 21,767 | 71,425 | 46,658 | 155 | 166,522 | 306,527 | 306,534 |
| Profit for the period and total comprehensive income for the period | | — | — | — | — | — | 95,017 | 95,017 | 95,017 |
| Capitalisation issue | 14 | 49,800 | (49,800) | — | — | — | — | (49,800) | — |
| Issue of shares | 14 | 16,603 | 410,747 | — | — | — | — | 410,747 | 427,350 |
| Share issue expenses | | — | (18,477) | — | — | — | — | (18,477) | (18,477) |
| Transfer from liability component of the exchangeable note to contributed surplus | 13 | — | — | 57,768 | — | — | — | 57,768 | 57,768 |
| Transfer to statutory surplus fund | | — | — | — | 10,271 | — | (10,271) | — | — |
| At 30 June 2011 (unaudited) | | 66,410 | 364,237 | 129,193 | 56,929 | 155 | 251,268 | 801,782 | 868,192 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| **NET CASH FLOWS FROM/(USED IN):** | | |
| Operating activities | 32,676 | 71,012 |
| Investing activities | (5,696) | 2,078 |
| Financing activities | 295,871 | 3,309 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 322,851 | 76,399 |
| Cash and cash equivalents at beginning of period | 327,881 | 178,504 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 650,732 | 254,903 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | 650,732 | 254,903 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 principal activity of the Company is investment holding. The Group is involved in the manufacture and sales of sandals and slippers. There were no significant changes in the nature of the Group's principal activities during the period.

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

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB") and the disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010, except in relation to the following new and revised International Financial Reporting Standards ("new IFRSs") which are effective for the Group's financial year beginning on 1 January 2011.

| | |
|---|---|
| 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* |
| IAS 24 (Revised) | *Related Party Disclosures* |
| IAS 32 Amendment | Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| IFRIC 14 Amendments | Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| Improvements to IFRSs 2010 | Amendments to a number of IFRSs issued in May 2010 |

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

## 3. 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.

**Period ended 30 June 2011**

| | OEM RMB'000 (unaudited) | Boree products RMB'000 (unaudited) | Baofeng products RMB'000 (unaudited) | Total RMB'000 (unaudited) |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 310,442 | 203,855 | 80,623 | 594,920 |
| **Segment results** | 74,124 | 63,720 | 27,789 | 165,633 |
| *Reconciliation:* | | | | |
| Interest income | | | | 2,948 |
| Other unallocated income and gains | | | | 293 |
| Corporate and other unallocated expenses | | | | (33,330) |
| Finance costs, net | | | | (5,019) |
| Profit before tax | | | | 130,525 |

## 3. SEGMENT INFORMATION (continued)

Period ended 30 June 2010

| | OEM<br>RMB'000<br>(unaudited) | Boree products<br>RMB'000<br>(unaudited) | Baofeng products<br>RMB'000<br>(unaudited) | Total<br>RMB'000<br>(unaudited) |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 300,024 | 111,386 | 46,598 | 458,008 |
| **Segment results** | 80,821 | 26,204 | 15,939 | 122,964 |
| *Reconciliation:* | | | | |
| Interest income | | | | 400 |
| Other unallocated income and gains | | | | 465 |
| Corporate and other unallocated expenses | | | | (17,767) |
| Finance income, net | | | | 11,437 |
| Profit before tax | | | | 117,499 |

**Geographical information**

Revenue from external customers

| | Six months ended 30 June 2011<br>RMB'000<br>(unaudited) | 2010<br>RMB'000<br>(unaudited) |
|---|---|---|
| PRC (principal place of operations) | 463,353 | 370,189 |
| United States of America | 119,817 | 77,958 |
| Europe | 2,658 | 1,487 |
| South East Asia | 3,782 | 3,537 |
| Other countries | 5,310 | 4,837 |
| | 594,920 | 458,008 |

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

## 4. REVENUE, OTHER INCOME AND GAINS

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

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

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| **Revenue** | | |
| Manufacture and sale of goods | 594,920 | 458,008 |
| **Other income and gains** | | |
| Interest income | 2,948 | 400 |
| Rental income | 69 | 56 |
| Subsidy income * | — | 409 |
| Others | 224 | — |
| | 3,241 | 865 |

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

## 5. FINANCE COSTS, NET

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Interest on bank loans repayable within five years | (3,809) | (1,592) |
| Interest expenses on exchangeable note | (1,210) | (7,313) |
| Waiver of maturity yield payment of exchangeable note | — | 20,342 |
| | (5,019) | 11,437 |

## 6. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Cost of inventories sold* | 397,404 | 304,801 |
| Depreciation* | 2,786 | 2,617 |
| Amortisation of prepaid land lease payments | 106 | 66 |
| Minimum lease payments under operating leases in respect of land and buildings* | 2,479 | 2,507 |
| Employee benefit expenses*: | | |
| Wages and salaries | 59,793 | 41,547 |
| Staff welfare | 2,988 | 1,820 |
| Pension scheme contributions | 4,350 | 3,482 |
| | 67,131 | 46,849 |
| Loss on disposal of items of property, plant and equipment | 18 | 4 |
| Research and development costs ** | 1,012 | 1,006 |

* The cost of inventories sold for the reporting period ended 30 June 2011 includes approximately RMB50,622,000 (2010: RMB37,172,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the reporting period (2010: 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.

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Current - Mainland China | | |
| Charge for the period | 36,440 | 27,220 |
| Withholding tax | — | 5,500 |
| Under/(Over)provision in prior years | (3,750) | 607 |
| Deferred - Mainland China | 2,818 | — |
| Total tax charge for the period | 35,508 | 33,327 |

## 8. DIVIDEND

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Proposed interim dividend | 16,632 | 60,900 |

An interim dividend of HK$0.02 per ordinary share for the period ended 30 June 2011 will be paid to the shareholders whose names appear in the register of members on 23 September 2011. The interim dividend was declared after the period ended 30 June 2011, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

For the period ended 30 June 2010, an interim dividend of HK$694 per ordinary share, amounting to HK$70,000,000 (equivalent to RMB60,900,000) for 100,816 ordinary shares in issue, was declared by the Board to shareholders on the register of members on 11 September 2010.

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the Company and the weighted average number of ordinary shares of 961,325,967 (2010: 750,000,000) in issue during the period.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2011 includes the 102,719 ordinary shares in issue, 749,897,281 ordinary shares issued pursuant to the capitalisation issue as if the shares had been in issue throughout the six months ended 30 June 2011, and 250,000,000 ordinary shares issued on 28 January 2011 in connection with the listing of the Company's ordinary shares on the Stock Exchange.

The number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2010 was based on the 750,000,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the six months ended 30 June 2010, as further detailed in note 14 to the condensed consolidated financial statements.

The calculation of diluted earnings per share amounts is based on the consolidated profit for the period 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 had been made to the basic earnings per share amounts presented for the period ended 30 June 2011 in respect of a dilution as the impact of the exchangeable note outstanding during the period has an anti-dilutive effect on the basis earnings per share amounts presented.

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

| | Six months ended 30 June | |
|---|---|---|
| | 2011<br>RMB'000<br>(unaudited) | 2010<br>RMB'000<br>(unaudited) |
| Earnings | | |
| Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation | 95,017 | 84,172 |
| Interest on exchangeable note | 1,210 | 7,313 |
| 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 | 96,227 | 71,143 |

## 10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period offered to its customers is generally for a period of three months. The Group seeks to apply strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Within 3 months | 116,883 | 80,839 |
| 3 to 6 months | 6,974 | — |
| | 123,857 | 80,839 |

As at 31 December 2010, the Group pledged trade receivables of approximately RMB33,904,000 to secure the bank borrowing granted to the Group (note 12). During the six months ended 30 June 2011, the respective bank borrowing was fully repaid and the pledged trade receivables were released.

## 11. 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:

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Within 3 months | 44,200 | 42,924 |

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

## 12. INTEREST-BEARING BANK BORROWINGS

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| **Current** | | |
| Bank loans - unsecured | 45,000 | 10,000 |
| Bank loans - secured | 327,352 | 29,625 |
| | 372,352 | 39,625 |
| **Analysed into:** | | |
| Bank loans repayable within one year | 372,352 | 39,625 |

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

| | |
|---|---|
| Six months ended 30 June 2011 | 1.3% per annum over HIBOR/LIBOR - 6.626% per annum |
| Year ended 31 December 2010 | 2.957% - 5.576% per annum |

(b) At 30 June 2011, certain bank loans were secured by the pledge of bank deposits of RMB379,810,000 (31 December 2010: Nil).

(c) 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. During the period ended 30 June 2011, the respective bank borrowing was fully repaid and the pledged trade receivables were released.

## 13. 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 14 to the condensed consolidated 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.

## 13. EXCHANGEABLE NOTE (continued)

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").

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.

## 13. EXCHANGEABLE NOTE (continued)

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.

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.

## 13. EXCHANGEABLE NOTE (continued)

(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.

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.

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 International Limited ("BAOF HK"), a subsidiary of the Company, and the 100% equity interest in Quanzhou Baofeng Shoes Co.,Ltd. ("Quanzhou Baofeng"), a subsidiary of the Company, 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.

## 13. EXCHANGEABLE NOTE (continued)

The above securities was 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 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.

| Exchangeable Note | Note | RMB'000 |
|---|---|---|
| Liability component at 1 January 2010 | | 80,348 |
| Restructuring of the Exchangeable Note: | | |
| Shareholders' assumption of the Maturity Yield Payment | | (7,914) |
| Waiver of the Maturity Yield Payment | | (20,342) |
| Interest expense for the year | | 11,911 |
| Interest paid during the year | | (5,518) |
| Liability component at 31 December 2010 and 1 January 2011 | | 58,485 |
| Interest expense for the period | 5 | 1,210 |
| Interest paid during the period | | (1,927) |
| Transfer to contribution surplus on 28 January 2011 | | (57,768) |
| Liability component at 30 June 2011 | | — |

## 14. SHARE CAPITAL

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

**Shares**

| | Notes | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| **Authorised:** | | | |
| 5,000,000,000 ordinary shares (2010: 4,999,999) of US$0.01 each | (a) | 342,400 | 342 |
| Nil preference share (2010: one) of US$0.01 each | (b) | — | — |
| | | 342,400 | 342 |
| **Issued and fully paid:** | | | |
| 1,000,000,000 ordinary shares (2010: 102,719) of US$0.01 | (a) | 66,410 | 7 |
| Nil preference share (2010: one) of US$0.01 each | (b) | — | — |
| | | 66,410 | 7 |

## 14. SHARE CAPITAL (continued)

### (a) Ordinary shares

| | Notes | Number of ordinary shares of US$0.01 each | Nominal value of ordinary shares US$'000 | Nominal value of ordinary shares RMB'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| At 1 January 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 share capital on 8 January 2011 | (ii) | 4,995,000,000 | 49,950 | 342,058 |
| At 30 June 2011 | | 5,000,000,000 | 50,000 | 342,400 |
| **Issued:** | | | | |
| At 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 | — | — |
| At 31 December 2010 and 1 January 2011 | | 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 30 June 2011 | | 1,000,000,000 | 10,000 | 66,410 |

## 14. SHARE CAPITAL (continued)

### (b) Preference shares

| | Notes | Number of preference shares of US$ 0.01 each | Nominal value of preference shares US$'000 | RMB'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| At 1 January 2010, 31 December 2010 and 1 January 2011 | (i) | 1 | — | — |
| Preference share redesignated as ordinary share on 28 January 2011 | (i) | (1) | — | — |
| At 30 June 2011 | | — | — | — |
| **Issued:** | | | | |
| At 1 January 2010, 31 December 2010 and 1 January 2011 | | 1 | — | — |
| Preference share redesignated as ordinary share on 28 January 2011 | (i) | (1) | — | — |
| At 30 June 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 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 Ching Bor ("Mr. Sze"), a non-executive director of the Company, 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$0.01 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$0.01 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.

## 15. 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.

## 16. 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:

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Within one year | 2,479 | 2,479 |
| In the second to fifth years, inclusive | — | 1,239 |
| | 2,479 | 3,718 |

## 17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following commitments at the end of the reporting period:

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Contracted for commitment in respect of: | | |
| – advertising and consultancy services | 320 | 518 |
| – research and development | — | 2,167 |
| – acquisition of a building | 5,300 | — |
| | 5,620 | 2,685 |

## 18. 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 30 June 2010.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:

| | Six months ended 30 June | |
|---|---|---|
| | 2011 RMB'000 (unaudited) | 2010 RMB'000 (unaudited) |
| Fees | 396 | 50 |
| Other emoluments: | | |
| Salaries, bonuses, allowances and benefits in kind | 1,173 | 324 |
| Pension scheme contributions | — | 1 |
| | 1,569 | 375 |

## 19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 29 August 2011.