



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

## Global Offering



**招銀國際**  
CMB INTERNATIONAL

Sole Global Coordinator, Sole Bookrunner,  
Sole Lead Manager and Sole Sponsor

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## IMPORTANT

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If you are in any doubt about this prospectus, you should obtain independent professional advice.



## 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)*

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	350,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	35,000,000 New Shares (subject to adjustment)
Number of International Placing Shares	:	315,000,000 Shares, comprising 215,000,000 New Shares and 100,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$2.98 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)
Nominal value	:	US\$0.01 per Share
Stock code	:	1121

### Sole Global Coordinator, Sole Bookrunner, Sole Lead Manager and Sole Sponsor



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Monday, 24 January 2011 and, in any event, not later than Wednesday, 26 January 2011. The Offer Price will be not more than HK\$2.98 per Offer Share and is currently expected to be not less than HK\$1.99 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.98 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$2.98. If, for any reason, the Offer Price is not agreed by Wednesday, 26 January 2011 by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk), no later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. For more details, please see the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Offer Shares should note that the Sole Global Coordinator has the right, in its sole and absolute discretion, for itself and on behalf of the Hong Kong Underwriters, to terminate the Hong Kong Underwriting Agreement by notice in writing to us upon occurrence of any of the events set forth in the sub-section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for Termination" in this prospectus at any time prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

18 January 2011

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## EXPECTED TIMETABLE

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We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) if there is any change in the following expected timetable of the Hong Kong Public Offer.

2011<sup>(1)</sup>

Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) <sup>(2)</sup> . . . . . 11:30 a.m. on Friday, 21 January

Application lists of the Hong Kong Public Offer open <sup>(3)</sup> . . . . . 11:45 a.m. on Friday, 21 January

Latest time to lodge **WHITE** and **YELLOW** Application Forms <sup>(3)</sup> . . . . . 12:00 noon on Friday, 21 January

Latest time to give **electronic application instructions** to HKSCC via CCASS <sup>(4)</sup> . . . . . 12:00 noon on Friday, 21 January

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Friday, 21 January

Application lists of the Hong Kong Public Offer close <sup>(3)</sup> . . . . . 12:00 noon on Friday, 21 January

Expected Price Determination Date <sup>(5)</sup> . . . . . Monday, 24 January

Announcement of:

- (i) the final Offer Price;
- (ii) indication of level of interest in the International Placing;
- (iii) the level of applications in the Hong Kong Public Offer; and
- (iv) the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before. . . . . Thursday, 27 January

Result of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (please see the sub-section headed "How to apply for Hong Kong Offer Shares — III. Applying by using a **WHITE** or **YELLOW** Application Form — 7. Results of Allocations" in this prospectus) . . . . . Thursday, 27 January

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## EXPECTED TIMETABLE

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2011<sup>(1)</sup>

Result of allocations in the Hong Kong Public Offer will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function . . . . . Thursday, 27 January

Despatch of refund cheques and HK eIPO White Form e-Auto Refund payment instructions in respect of wholly successful applications (if applicable) and wholly or partially unsuccessful applications under the Hong Kong Public Offer on or before <sup>(6)</sup> . . . . . Thursday, 27 January

Despatch of the share certificates of the Offer Shares or deposit of certificates of the Offer Shares into CCASS in respect of wholly or partially successfully applications pursuant to the Hong Kong Public Offer on or before <sup>(6)</sup> . . . . . Thursday, 27 January

Dealings in Shares on the Stock Exchange expected to commence at 9:30 a.m. on . . . . . Friday, 28 January

*Notes:*

- (1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 21 January 2011, the application lists will not open on that day. Further information is set out in the sub-sections headed “How to Apply for Hong Kong Offer Shares — III. Applying by using a WHITE or YELLOW Application Form — 6. Effect of bad weather on the opening of the application lists” and “How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC — 7. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, 21 January 2011, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the sub-section headed “How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Monday, 24 January 2011, and in any event no later than Wednesday, 26 January 2011. If, for any reason, the Offer Price is not agreed on or before Wednesday, 26 January 2011, the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.

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## EXPECTED TIMETABLE

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- (6) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly successful applications if the final Offer Price is less than the price payable on application. If you apply through the **HK eIPO White Form** service by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account. If you apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider by ordinary post and at your own risk. All refunds will be paid by a cheque crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.
- (7) Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) the Underwriting Agreements have not been terminated in accordance with their terms before 8:00 a.m. on the Listing Date, which is expected to be Friday, 28 January 2011. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.
- (8) Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have indicated in their applications that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Thursday, 27 January 2011. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Tricor Investor Services Limited at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applications are the same as those for **WHITE** Application Form applicants. Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the sub-section headed “How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC” in this prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant applications. Further information is set out in the sub-section headed “How to Apply for Hong Kong Offer Shares — III. Applying by using a **WHITE** or **YELLOW** Application Form — Despatch/collection of share certificates, e-Auto Refund payment instructions and refund cheques” in this prospectus.

**You should read carefully the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares.**

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*This prospectus is issued by Baofeng Modern International Holdings Company Limited solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.*

*We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, any of the Underwriters, any of our or their respective directors or any other persons or parties involved in the Global Offering.*

*Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.*

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## SUMMARY

*This summary aims at giving you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the section headed "Definitions" in this prospectus.*

### OVERVIEW

We are a leading supplier of slippers (including own-branded slippers) in the PRC. According to the Frost & Sullivan Report, we were the largest slipper supplier in the PRC based on revenue, production volume and sales volume in 2009 and for the six months ended 30 June 2010 and we were also the largest slipper supplier based on domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010.

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. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, the revenue derived from the sale of slippers accounted for approximately 96.7%, 96.0%, 95.0% and 97.7% of our total revenue, respectively. In addition to slippers, we also supply non-slipper footwear and accessories under our Boree brand so as to complement our product-portfolio and to increase our revenue-generators. The following table sets out a breakdown of our revenue by product segments for each of the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>FOOTWEAR</b>										
- Slippers	415,021	96.7	479,025	96.0	558,896	95.0	415,365	97.5	619,494	97.7
- Non-slipper footwear	13,767	3.2	18,721	3.7	27,836	4.7	9,559	2.2	14,176	2.2
<b>Sub-total</b>	<u>428,788</u>	<u>99.9</u>	<u>497,746</u>	<u>99.7</u>	<u>586,732</u>	<u>99.7</u>	<u>424,924</u>	<u>99.7</u>	<u>633,670</u>	<u>99.9</u>
<b>ACCESSORIES</b>	508	0.1	1,518	0.3	1,820	0.3	1,139	0.3	637	0.1
<b>TOTAL</b>	<u>429,296</u>	<u>100.0</u>	<u>499,264</u>	<u>100.0</u>	<u>588,552</u>	<u>100.0</u>	<u>426,063</u>	<u>100.0</u>	<u>634,307</u>	<u>100.0</u>

Notes:

(1) The breakdown by product segments for each of the three years ended 31 December 2009 and the nine months ended 30 September 2009 and the total revenue for the nine months ended 30 September 2009 are based on the unaudited management records of our Group.

(2) Accessories refer to bags.



## SUMMARY

We began our business as an OEM enterprise in 2001 and over the years, our OEM business has prospered. Revenue generated from our OEM business was approximately RMB409.2 million, RMB467.2 million and RMB467.9 million for each of the three years ended 31 December 2009, respectively. We maintained a steady growth in our OEM business for the nine months ended 30 September 2010, with a revenue from our OEM products of approximately RMB396.6 million for the nine months ended 30 September 2010, compared to approximately RMB333.3 million over the same period in 2009. We have a solid and broad OEM customer base and our OEM products come in a broad range of designs and styles, including slippers with cartoon characters to cater for children and the youth market. Our customers include licensees of companies which were on the Fortune Global 500 List for the year 2009. We have also cultivated long-term relationships with a number of our key OEM customers. As at 30 September 2010, four of our top five OEM customers had been our customers for five years or more.

The following table sets out a breakdown of our revenue by reference to the geographical locations of our customers for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(Unaudited)</i>									
PRC (principal place of operations)*	276,458	64.4	290,907	58.3	436,933	74.2	314,185	73.7	528,546	83.3
United States**	125,618	29.3	185,294	37.1	130,950	22.3	95,473	22.4	85,203	13.4
South East Asia**	8,840	2.1	7,725	1.5	5,374	0.9	4,775	1.1	5,555	0.9
Europe**	8,003	1.9	5,471	1.1	3,990	0.7	2,926	0.7	1,575	0.2
South America**	2,580	0.6	3,093	0.6	2,577	0.4	2,315	0.5	7,413	1.2
Other countries**	7,797	1.7	6,774	1.4	8,728	1.5	6,389	1.6	6,015	1.0
Total:	<u>429,296</u>	<u>100</u>	<u>499,264</u>	<u>100</u>	<u>588,552</u>	<u>100</u>	<u>426,063</u>	<u>100</u>	<u>634,307</u>	<u>100</u>

\* Revenue was generated from our OEM and branded products. To the best knowledge and information of our Directors, some of the OEM products sold to our customers in the PRC were ultimately exported overseas.

\*\* Revenue was generated from our OEM products.

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## SUMMARY

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We derived approximately 64.4%, 58.3%, 74.2% and 83.3% of our total revenue from customers in the PRC for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010.

We believe that we are well-positioned to keep abreast of the latest international trends in the slipper market as we produce a significant volume of exported products each year on an OEM basis. Our major export destination is the United States. However we also export a portion of our OEM products to South East Asia, Europe and South America. According to the Frost & Sullivan Report, we were the largest exporter of slippers in the PRC in 2009 and for the six months ended 30 June 2010 in terms of both export volume and revenue. Our market position as the leading exporter among local PRC slipper suppliers is fully attributable to our success in the OEM business.

Subsequently, in 2007, we began to shift our business focus towards developing a branded product business, based on our belief that it has a greater growth potential and that such positioning would differentiate us from our major competitors. We first launched the Boree brand as a brand for slippers with fashionable designs. We developed this brand as we were confident that our fashionable designs would be well-received by the medium-to-high end consumer market in the PRC. We subsequently launched the Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market. We developed this brand with a view to establishing a broad market coverage and catering for the growing demand for slippers in the PRC. Just as we had envisaged, the market did experience a growth in demand for slippers, in particular, slippers with fashionable designs. As a result, sales revenue of our branded products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately RMB120.6 million in 2009, representing a CAGR of approximately 145.0%. For the nine months ended 30 September 2010, sales revenue of our branded products was approximately RMB237.7 million, compared to approximately RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%.

Our Directors believe that we are well-positioned to capture the anticipated growth in the PRC slipper market through continued expansion of our branded product business. In the years to come, we will continue to strengthen our branded product business by leveraging on our experience in the OEM business whilst maintaining a steady growth in our OEM business.

Whilst our OEM products are generally sold to our OEM customers directly, our branded products are generally sold through an extensive and established network of distributors in the PRC. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, revenue from sales to our distributors accounted for approximately 4.7%, 6.4%, 20.5% and 37.5% of our total revenue, respectively. To the best knowledge and information of our Directors, as at the Latest Practicable Date, all of our distributors were Independent Third Parties. As at 30 September 2010, we had a total of 27 distributors. Among these distributors, there were 23 Boree brand distributors, 23 Baofeng brand distributors and 19 common distributors of both Boree and Baofeng brand products. As at 30 September 2010, our Boree brand products were sold to end consumers at no less than 524 Sales Points across 26 provinces, autonomous regions and municipalities in the PRC.

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## SUMMARY

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To maintain an image of our Boree brand that is consistent with its market positioning, we usually encourage our distributors to set up specialty stores or counters to sell our Boree brand products directly to end consumers. To the best knowledge and information of our Directors, as at 30 September 2010, most Boree brand products were sold directly to end consumers at specialty stores or concessionary counters that had been set up by our Boree brand distributors, whereas most Baofeng brand products were on-sold by our distributors to sub-distributors rather than directly to end consumers. However, a small portion of our Baofeng brand products were also sold by our common distributors at certain Boree Sales Points so as to complement the existing product offerings at those Sales Points. During the Track Record Period, save and except the World Expo Booth which was operated by us from May to October 2010, all Sales Points were operated by our distributors or other Independent Third Parties. Our Directors believe that our branded product business model provides us with a competitive edge in capturing business opportunities in the growing slipper market in the PRC as we are able to leverage on the management resources and local relationships of our distributors.

We place a great emphasis on brand building and promoting our branded products. We use a variety of media, such as television, newspapers, magazines and internet to strengthen the recognition of our brands in the PRC. During the Track Record Period, as part of our marketing campaign, we engaged entertainment celebrity Ms. Jacqueline Li Xiao-lu (李小璐) to be the image and brand spokesperson for our Boree brand. We plan to continue in this direction in terms of our brand building and promotional strategy.

In 2010, we were selected to be a licensed manufacturer of slippers and a retailer of footwear products for the 2010 Shanghai World Expo. We believe that our corporate image has been enhanced as a result of the national and global media coverage presented by the 2010 Shanghai World Expo.

Furthermore, we, together with 中國皮革和製鞋工業研究院 (China Leather and Footwear Industry Research Institute\*), were responsible for drafting the National EVA Slipper and Sandal Industry Standard which was approved by National Development and Reform Commission of the PRC and promulgated in 2008. As such, we believe that we have established an indisputable standing in the PRC slipper market. Further, we believe that we are in an advantageous position to master the national manufacturing standard for EVA slippers set for the industry.

We manufacture footwear at our facilities in Quanzhou City, Fujian Province, the PRC. In 2009, we had a combined annual production capacity of approximately 50 million pairs of footwear. Our annual production volume for the year ended 31 December 2009 was approximately 39.8 million pairs of footwear. So as to equip our Group with sufficient production capacity to meet the requirements of a rapidly growing business and expected increase in orders, we plan to apply a portion of the proceeds from the Global Offering towards constructing new production facilities on the New Land and installing additional production lines at the Huoju Production Facility. Please see the sub-section headed “Our Business — Production — Our production facilities and capacities” in this prospectus for further details.

## SUMMARY

We experienced a significant growth in revenue during the Track Record Period, mainly due to the rapid growth in revenue from our branded products, which had significantly outpaced the growth in revenue from our OEM products. The following table sets out a breakdown of our revenue by OEM and branded products for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(Unaudited)</i>									
<b>OEM PRODUCTS</b>										
Export sales	152,838	35.6	208,356	41.7	151,623	25.8	111,879	26.2	105,761	16.7
Domestic sales	256,357	59.7	258,890	51.9	316,285	53.7	221,437	52.0	290,878	45.8
<b>Sub-total</b>	<b>409,195</b>	<b>95.3</b>	<b>467,246</b>	<b>93.6</b>	<b>467,908</b>	<b>79.5</b>	<b>333,316</b>	<b>78.2</b>	<b>396,639</b>	<b>62.5</b>
<b>BRANDED PRODUCTS</b>										
Boree	20,101	4.7	32,018	6.4	85,860	14.6	64,739	15.2	170,049	26.8
Baofeng	—	—	—	—	34,784	5.9	28,008	6.6	67,619	10.7
<b>Sub-total</b>	<b>20,101</b>	<b>4.7</b>	<b>32,018</b>	<b>6.4</b>	<b>120,644</b>	<b>20.5</b>	<b>92,747</b>	<b>21.8</b>	<b>237,668</b>	<b>37.5</b>
<b>TOTAL</b>	<b>429,296</b>	<b>100.0</b>	<b>499,264</b>	<b>100.0</b>	<b>588,552</b>	<b>100.0</b>	<b>426,063</b>	<b>100.0</b>	<b>634,307</b>	<b>100.0</b>

Notes:

- (1) To the best knowledge and information of our Directors, some of our domestic OEM sales were ultimately exported overseas.
- (2) Domestic OEM sales for the nine months ended 30 September 2010 include sales of 2010 Shanghai World Expo Products of approximately RMB17.6 million.
- (3) All branded product sales are domestic sales.

Due to our strategic decision to increase focus on our branded product business and an increase in market demand, revenue from the sales of our branded products grew rapidly during the Track Record Period. Our total revenue for each of the three years ended 31 December 2009 was approximately RMB429.3 million, RMB499.3 million and RMB588.6 million, respectively, representing a CAGR of approximately 17.1%. Our total revenue for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB426.1 million and RMB634.3 million, respectively, representing an increase of approximately 48.9%. Our net profit for each of the three years ended 31 December 2009 was approximately RMB68.9 million, RMB58.2 million, RMB70.1 million, respectively. Our net profit for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB45.2 million and RMB104.5 million, respectively, representing an increase of approximately 131.2%.

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## SUMMARY

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### OUR COMPETITIVE STRENGTHS

We believe that our ability to rapidly expand our business and capture anticipated opportunities in the PRC slipper market is underpinned by the following competitive strengths:

- A leading supplier of own-branded slippers in the PRC
- Established long-term relationships with our OEM customers
- A leading role in the development of the manufacturing standard of slippers in the PRC
- Largest slipper manufacturer with strong production capability
- Access to an extensive and established distribution network
- Experienced and stable management team with in-depth insights

### OUR BUSINESS STRATEGIES

We will strategically work on securing our leading market position in the slipper market in the PRC and on becoming a leading supplier of own-branded slippers in Asia. The following sets forth our key business strategies:

- Secure our leading position as a supplier of own-branded slippers in the PRC and increase recognition of our Boree and Baofeng brand names in other countries in Asia
- Continue to explore expansion opportunities
- Strengthen our information systems technology so as to increase our ability to monitor the performance of our distributors
- Strengthen our design capability
- Continue to expand and improve on our production capability

### RESULTS OF OPERATIONS

The table below summarises the consolidated financial information for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively, of our Group. Financial results for the nine months ended 30 September 2010 are not necessarily indicative of the results that may be expected for the year ended 31 December 2010. Summaries of the consolidated income statements information and consolidated cash flow information for the nine months ended 30 September 2009 are also included for comparison purpose. The consolidated financial information for the nine months ended 30

## SUMMARY

September 2009 has not been audited. The following summary is extracted from our consolidated financial information included in the accountant's report set out in Appendix I to this prospectus. You should read the entire financial information, including the notes thereto, included in Appendix I to this prospectus for further details.

### Summary Consolidated Income Statements Information

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
REVENUE	429,296	499,264	588,552	426,063	634,307
Cost of sales	<u>(324,711)</u>	<u>(368,694)</u>	<u>(423,179)</u>	<u>(313,236)</u>	<u>(419,551)</u>
Gross profit	104,585	130,570	165,373	112,827	214,756
Other income and gains, net	1,954	8,329	3,044	1,707	770
Selling and distribution costs	(11,386)	(14,214)	(26,927)	(21,307)	(48,965)
General and administrative expenses	(12,997)	(17,099)	(22,464)	(17,308)	(20,011)
Other operating expenses	<u>(869)</u>	<u>(2)</u>	<u>(239)</u>	<u>(175)</u>	<u>(8,725)</u>
Profit from operations	<u>81,287</u>	<u>107,584</u>	<u>118,787</u>	<u>75,744</u>	<u>137,825</u>
Finance costs, net	<u>(2,394)</u>	<u>(22,759)</u>	<u>(14,493)</u>	<u>(10,276)</u>	<u>9,742</u>
PROFIT BEFORE TAX	78,893	84,825	104,294	65,468	147,567
Income tax expense	<u>(9,964)</u>	<u>(26,641)</u>	<u>(34,189)</u>	<u>(20,275)</u>	<u>(43,030)</u>
PROFIT FOR THE YEAR/ PERIOD	<u>68,929</u>	<u>58,184</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>

### Summary Consolidated Statements of Financial Position Information

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>				
Current assets	166,090	260,173	342,762	425,487
Non-current assets	<u>43,480</u>	<u>87,821</u>	<u>87,570</u>	<u>79,441</u>
Total Assets	<u>209,570</u>	<u>347,994</u>	<u>430,332</u>	<u>504,928</u>
<b>Equities and Liabilities</b>				
Current liabilities	84,930	194,497	203,230	221,068
Non-current liabilities	—	—	3,500	—
Total equity	<u>124,640</u>	<u>153,497</u>	<u>223,602</u>	<u>283,860</u>
Total Equity and Liabilities	<u>209,570</u>	<u>347,994</u>	<u>430,332</u>	<u>504,928</u>

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## SUMMARY

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### Summary Consolidated Statements of Cash Flow Information

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Net cash flows from operating activities	63,849	132,325	31,615	22,084	161,017
Net cash flows from/(used in) investing activities	(3,141)	(46,580)	(5,330)	(4,940)	1,425
Net cash flows from/(used in) financing activities	(31,048)	(8,271)	17,056	(12,797)	(37,809)
Cash and cash equivalents at end of year/period	<u>57,534</u>	<u>135,163</u>	<u>178,504</u>	<u>165,104</u>	<u>303,137</u>

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2010

Estimated consolidated profit attributable to owners of our Company<sup>(1)</sup> .....not less than RMB110.2 million

Unaudited pro forma estimated earnings per Share<sup>(2 and 3)</sup> .....RMB0.11 (approximately HK\$0.13)

The estimated consolidated profit attributable to the owners of our Company for the year ended 31 December 2010 is approximately RMB110.2 million of which approximately RMB104.5 million and RMB5.7 million represents the profit for the nine months ended 30 September 2010 and for the three months ended 31 December 2010, respectively. Our estimated net profit margin decreased from approximately 16.5% for the nine months ended 30 September 2010 to approximately 2.8% for the three months ended 31 December 2010. This is mainly attributable to the combined effect of (i) the accrual of the professional fees in relation to the Listing in the amount of approximately RMB11.7 million which accounted for approximately 5.7% of our estimated sales for the three months ended 31 December 2010 as compared to that of approximately RMB8.6 million for the nine months ended 30 September 2010 which accounted for approximately 1.4% of the sales for the nine months ended 30 September 2010; (ii) the increase in the proportion of advertising and marketing expenses from approximately 4.3% of sales for the nine months ended 30 September 2010 (in an amount of approximately RMB27.3 million) to approximately 8.6% of the estimated sales for the three months ended 31 December 2010 (in an amount of approximately RMB17.5 million) mainly due to the brand building activities to promote our Boree and Baofeng brands in the PRC; and (iii) the recognition of a one-off finance income derived from the waiver of maturity yield payment of the 2008 Exchangeable Note arising from the restructuring of the terms thereof in the amount of approximately RMB20.3 million for the nine months ended 30 September 2010. As such, there was a net finance income of approximately RMB9.7 million for the nine months

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## SUMMARY

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ended 30 September 2010 as compared to the estimated net finance costs of approximately RMB4.1 million for the three months ended 31 December 2010. The estimated net finance costs for the three months ended 31 December 2010 largely represents the interest expenses accrued for the 2008 Exchangeable Note and our Group's bank borrowings.

Notes:

1. *The bases on which the above estimated consolidated profit attributable to the owners of our Company for the year ended 31 December 2010 have been prepared are summarised in Appendix III to this prospectus.*
2. *The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the owners of our Company for the year ended 31 December 2010 and assuming a total of 1,000,000,000 Shares had been in issue throughout the year ended 31 December 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, or the Issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate.*
3. *The unaudited pro forma estimated earnings per Share is converted into Hong Kong Dollars at an exchange rate of RMB1.00 to HK\$1.17.*

### GLOBAL OFFERING STATISTICS

	Based on an Offer Price per Share of HK\$1.99	Based on an Offer Price per Share of HK\$2.98
Market capitalisation of the Shares <sup>(1)</sup> .....	HK\$1,990 million	HK\$2,980 million
Prospective price/earnings multiple on a pro forma fully diluted basis <sup>(2)</sup> .....	15.3 times	22.9 times
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(3)</sup> .....	HK\$0.80	HK\$1.04

Notes:

- (1) *The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue following the completion of the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option and the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.*
- (2) *Prospective price/earnings multiple on a pro forma fully diluted basis is calculated based on the unaudited pro forma estimated earnings per Share at the respective Offer Price of HK\$1.99 per Offer Share and HK\$2.98 per Offer Share.*
- (3) *The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after making the adjustments set forth in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of a total of 1,000,000,000 Shares expected to be in issue following the completion of the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option and the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.*



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## SUMMARY

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### DIVIDEND AND DIVIDEND POLICY

We declared and paid dividends of approximately RMB50.0 million and RMB43.0 million, for the year ended 31 December 2007 and 2008, respectively. No dividend was declared for the year ended 31 December 2009 and we declared an interim dividend of HK\$70 million on 11 September 2010. As at the Latest Practicable Date, the amount of our declared but unpaid dividend was HK\$70 million. The payment of such declared but unpaid dividend will be made by way of a dividend payment from Quanzhou Baofeng to Baof HK and a dividend payment by Baof HK to our Company. The payments for all the above dividends by our Company, Baof HK and Quanzhou Baofeng are expected to be made on or before 31 March 2011 upon the due completion of the relevant registration with SAFE. For the purpose of arranging the payment of these dividends, we have deposited the relevant amount into an escrow account maintained with a commercial bank in the PRC and have engaged an independent third party escrow agent who will release the fund in the account for remittance to Baof HK upon due completion of the relevant registration with SAFE. Save for the aforementioned, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

The recommendation of the payment of dividend is subject to the discretion of the Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman company law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our foreign-invested subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our foreign invested subsidiary may also be restricted if it incurs debt or losses or pursuant to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Subject to the factors above, the Board currently intends to recommend, at the relevant Shareholders' meetings of our Company, an annual dividend of not less than 25.0% of the net

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## SUMMARY

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profit attributable to owners of our Company for the financial years subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay dividends at all. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

### USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (excluding net proceeds from the sale of the Sale Shares) accruing to our Group are estimated to be approximately HK\$574.0 million (approximately RMB490.6 million) (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.49 per Share, being the mid-point of the proposed Offer Price ranging from HK\$1.99 to HK\$2.98 per Share). We intend to use the net proceeds from the Global Offering as follows:

- approximately 35%, or HK\$200.9 million (approximately RMB171.7 million), conditional upon obtaining the necessary approvals, to increase our production capacity progressively by constructing new production facilities in two phases on the New Land and installing additional production lines at the Huoju Production Facility. We plan to construct two twelve-storey buildings for standard workshops and warehouses on the New Land. We plan to install additional production lines in these standard workshops to increase our production capacity. Phase 1 of the construction project is scheduled for completion in April 2012 and Phase 2 of the construction project is scheduled for completion in November 2016. Upon completion of the construction project on the New Land, the maximum annual production capacity that can be supported by our new production facilities is expected to be approximately 94 million pairs of footwear, wherein the production facilities built in Phase 1 can support a maximum annual production capacity of approximately 47 million pairs of footwear and Phase 2 can support a maximum annual production capacity of approximately 47 million pairs of footwear. We will install additional production lines at our new production facilities in accordance with our production capacity needs, which will be assessed by our management team from time to time. Details are set out in the sub-section headed “Our Business — Production — Our production facilities and capacities” in this prospectus;
- approximately 25%, or HK\$143.5 million (approximately RMB122.7 million), 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, we plan to use promotional posters, organise promotional events and place advertisements on television, newspapers and magazines;
- approximately 15% or HK\$86.1 million (approximately RMB73.6 million) to acquire branded product businesses when suitable opportunities arise;

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## SUMMARY

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- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), 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;
- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), towards pursuing expansion opportunities by (1) establishing flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong; and (2) establishing a market presence in other countries in Asia;
- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), 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
- as to the remaining balance of approximately 10%, or HK\$57.4 million (approximately RMB49.1 million) towards our general working capital and other general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (excluding net proceeds from the sale of the Sale Shares and assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$119.1 million or decrease by approximately HK\$121.5 million, respectively. In this event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$701.0 million, assuming an Offer Price of HK\$2.49 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (excluding net proceeds from the sale of the Sale Shares and including the proceeds from the exercise of the Over-allotment Option) will increase by approximately HK\$144.1 million or decrease by approximately HK\$147.0 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportion stated above.

Pending the use of the net proceeds from the Global Offering for the purposes set out above and/or if we are unable to effect any part of our future development plans as intended, we intend to hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as we consider that it would be in our best interests to do so. We will disclose the same in the relevant annual report.

No proceeds from the sale of the Sale Shares under the Global Offering will accrue to our Company.

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## SUMMARY

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### RISK FACTORS

Our Directors consider that there are risks and uncertainties relating to our Group's business industry, the PRC and the Global offering. A summary of these risks is set out below. For further details, please see to the section headed "Risk Factors" in this prospectus.

#### Risks relating to our business

- Our sales depend on our own ability and our OEM customers' ability to keep in pace with changes in consumer preferences and increasing demand for design and quality
- We have a limited operating history in our branded product business
- Our business operations are subject to fluctuations in the price of certain raw materials including plastic
- We rely on our OEM customers for a significant portion of our total revenue
- Demand for slippers in the PRC and in our export destinations abroad can be volatile and any decrease in demand in these regions may have a significant adverse impact on our results of operations
- Our sales may decline if we fail to effectively market and promote our branded products
- Our success depends on our ability to attract quality distributors and on the success of our distributors
- Our ability to monitor the performance of our distributors and the quality of service provided by sales staff at the Sales Points is limited
- Our operations may be subject to disruption arising from certain imperfections in title in respect of the High-Tech Asset Production Property
- The prices of our branded products are subject to factors beyond our control
- We do not have long-term purchase commitments from our OEM customers, which may lead to significant uncertainty and volatility with respect to our period to period revenue
- Our branded product business may adversely impact our relationships with existing OEM customers
- Our ability to accurately track the sales and inventory levels of our distributors and Sales Points may be limited

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## SUMMARY

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- We depend on sub-contractors to manufacture a portion of our products for us
- Possible slowdown or reversal in the trend to subcontract the manufacturing of slippers to PRC-based manufacturers may adversely affect our growth prospects and profitability
- We rely on key management personnel and may not be able to attract and retain talented personnel
- We may face challenges in the implementation of our business strategies
- We may face challenges in managing and/or fully utilising our new production facilities
- Our business may be adversely affected by inadequate protection of intellectual property rights and/or claims by third parties for possible infringement of their intellectual property rights
- We are exposed to the risk of foreign exchange fluctuations
- Our insurance coverage may not be sufficient to cover the risks relating to our operations and potential losses
- Our OEM export sales may fluctuate and may be restricted by anti-dumping measures or the imposition of tighter technical standards by the governments of our export destinations abroad
- Our manufacturing operations are subject to various customer-imposed safety, health and environmental guidelines that may increase our costs and adversely affect our results of operations
- Waivers granted by relevant PRC authorities in relation to certain instances of non-compliance with PRC laws and regulations may be revoked by higher authorities

### **Risks relating to the slipper industry**

- The branded slipper industry is becoming increasingly competitive in the PRC
- Sale of slippers is subject to seasonality

### **Risk relating to the PRC**

- Changes in political and economic policies may have an adverse impact on our operations

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## SUMMARY

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- Our business operations may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business
- Changes and uncertainties in the PRC legal system may have an adverse impact on our operations
- It may be difficult to effect service of process upon our Directors or executive officers who live in the PRC or to enforce in the PRC any judgments obtained from non-PRC courts
- Changes in foreign exchange regulations may adversely affect our results of operations
- New labour laws in the PRC may materially and adversely affect our results of operations
- Relevant PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate
- Payment of dividends by our operating subsidiary in the PRC is subject to restrictions under PRC law

### **Risks relating to the Global Offering**

- The interests of our Controlling Shareholders may differ from those of our other Shareholders
- There has not been any prior public market for the Shares and an active trading market may not develop
- The trading volume and share price of the Shares may fluctuate
- Future sales of substantial amounts of the Shares in the public market may adversely affect the prevailing market price of the Shares
- Shareholders' interests in our Company may be diluted in the future
- Forward-looking information included in this prospectus may not be accurate
- There can be no guarantee as to the accuracy of facts and other statistics contained in this prospectus with respect to the economies and the industry in which we operate
- You should read the entire prospectus and should not rely on any information contained in press coverage or other media regarding us and the Global Offering

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“Active Logic”	Active Logic Limited, a company incorporated on 10 April 2008 under the laws of the BVI and wholly owned by Zheng Guozhang (a member of our senior management and a director of our subsidiary, Quanzhou Baofeng)
“Anti-Monopoly Law”	中華人民共和國反壟斷法 (Anti-Monopoly Law of the PRC*) promulgated on 30 August 2007 with effect from 1 August 2008
“Anti-Unfair Competition Law”	中華人民共和國反不正當競爭法 (Anti-Unfair Competition Law of the PRC*) promulgated on 2 September 1993 with effect from 1 December 1993
“Application Form(s)”	<b>WHITE, YELLOW and GREEN</b> application form(s), or where the context so requires, any of them, used in the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 8 January 2011, a summary of which is set forth in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Baof HK”	Baof International Limited (寶峰新國際有限公司), a limited liability company incorporated on 7 January 2008 under the laws of Hong Kong and wholly owned by our Company
“Best Mark”	Best Mark International Limited, a company incorporated on 8 April 2008 under the laws of the BVI and wholly owned by Mr. Sze who is a Controlling Shareholder
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capital Vision”	Capital Vision International Limited, a limited liability company incorporated on 8 April 2008 under the laws of the BVI and wholly owned by Mr. Sze who is our Controlling Shareholder

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## DEFINITIONS

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“Capitalisation Issue”	the issue of 749,897,281 Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company upon completion of the Global Offering referred to in the sub-section headed “Statutory and General Information — Further Information about our Company — 3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“chief executive”	the chief executive (as defined in the SFO) of our Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Circular 75”	關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (Notice on Issues relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies*) issued by SAFE on 21 October 2005, which became effective on 1 November 2005
“CITIC Capital”	CITIC Capital China Mezzanine Fund Limited, formerly known as CITIC Allco Investments Limited, a company incorporated under the laws of the Cayman Islands and is advised and managed by the subsidiaries of CITIC Capital Holdings Limited



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## DEFINITIONS

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“CMB International”, “Sole Global Coordinator”, “Sole Bookrunner” or “Sole Sponsor”	CMB International Capital Limited, a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO), acting as the sole global coordinator and sole bookrunner of the Global Offering and the sole sponsor of the Listing
“CMBIS”, “Sole Lead Manager” or “Stabilising Manager”	CMB International Securities Limited, a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) of the regulated activities (as defined in the SFO), acting as the sole lead manager and stabilising manager of the Global Offering
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” and “our Company”	Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) (previously known as BAOF International Limited (寶峰國際有限公司)), a limited liability company incorporated under the laws of the Cayman Islands on 6 March 2008
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of our Company, means Mr. Sze, Best Mark and Capital Vision
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for, among other things, the supervision and regulation of the national securities markets in the PRC and certain matters relating to the proposed offshore listing of PRC enterprises directly or indirectly
“Director(s)”	the directors of our Company
“DRP System”	the distribution resource planning system, a comprehensive software designed to, amongst others, track inventory levels in a real-time environment and forecast demand for each stock-keeping unit at multiple locations

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## DEFINITIONS

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“ERP System”	the enterprise resource planning system, a comprehensive software designed to integrate business processes and functions, by permitting the sharing of common data and practices in a real-time environment
“EUR”	Euro, the lawful currency of the European Union
“EVA”	acronym for Ethylene-vinyl acetate, a lightweight and durable foam material suitable for producing slippers
“Fortune Best”	Fortune Best Holdings Limited, a company incorporated on 10 April 2008 under the laws of the BVI, 100% equity interest of which is held by Mr. Tsang’s wife, Ms. Chan Sau Fong, the mother of Mr. Zeng Jianbo who is a director of Quanzhou Baofeng
“Frost & Sullivan Report”	the report dated 30 December 2010 prepared by Frost & Sullivan, an Independent Third Party, in relation to the PRC slipper market
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offer and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Group” or “our Group” or “we” or “us”	our Company and our subsidiaries and, in respect of the period before our Company became the holding company of our present subsidiaries, our present subsidiaries or the entities which carried on the business of our Group at the relevant time or (as the case may be) their predecessors
“High-Tech Asset Production Facility”	the production facilities located at the High-Tech Asset Production Property
“High-Tech Asset Production Property”	the parcel of land and the High-Tech Asset Production Facility built thereon located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, the PRC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>

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“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 35,000,000 New Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the issue and offer of the Hong Kong Offer Shares to members of the public in Hong Kong for subscription (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price and on the terms and conditions described in this prospectus and the related Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the sub-section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 17 January 2011 relating to the Hong Kong Public Offer and entered into between, amongst others, the Sole Global Coordinator, the Sole Lead Manager, the Sole Sponsor, the Hong Kong Underwriters, our Controlling Shareholders, our executive Directors and our Company, as further described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses”
“Huoju Production Facility”	the production facilities located at Huoju Industrial Zone, Jiangnan Town, Licheng District, Quanzhou City, Fujian Province, the PRC
“IFRS”	the International Financial Reporting Standards

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## DEFINITIONS

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“Independent Third Parties”	persons or companies which are independent of and not connected with any of our Directors, chief executives of our Company, our Substantial Shareholders and the directors and shareholders of any other member of our Group and our respective associates, and “Independent Third Party” means any of them
“International Placing”	the conditional placing of the International Placing Shares for and on behalf of our Company and the Selling Shareholders to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 315,000,000 Shares (comprising 215,000,000 being New Shares and 100,000,000 Sale Shares) initially offered by us and the Selling Shareholders for subscription and sale, respectively, under the International Placing (subject to adjustment and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus)
“International Underwriters”	the underwriters of the International Placing
“International Underwriting Agreement”	the conditional underwriting agreement relating to the International Placing expected to be entered into on or about the Price Determination Date, between, amongst others, the Sole Global Coordinator, the Sole Lead Manager, the Sole Sponsor, the International Underwriters, our Controlling Shareholders, the Selling Shareholders, our executive Directors and our Company, as further described in the sub-section headed “Underwriting — International Placing” in this prospectus
“Issuing Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information on which is set forth in the sub-section headed “Statutory and General Information — Further Information about our Company — 3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011” in Appendix VI to this prospectus

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“Joy Wise”	Joy Wise International Limited, a company incorporated on 8 April 2008 under the laws of the BVI and wholly owned by our Director, Mr. Chen Qingwei
“Latest Practicable Date”	11 January 2011, being the latest practicable date for the inclusion of information in this prospectus prior to the printing of this prospectus
“Licheng COFTEC”	泉州市鯉城區對外貿易經濟合作局 (Licheng Bureau of Foreign Trade and Economic Cooperation, Quanzhou City*)
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee	listing committee of the Stock Exchange
“Listing Date”	the date on which dealings of the Shares on the Main Board of the Stock Exchange first commence, which is currently expected to be on 28 January 2011
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time
“M&A Rules”	關於外國投資者併購境內企業的規定 (Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors*) promulgated by six PRC Governmental and regulatory agencies, including the Ministry of Commerce and the CSRC on 8 August 2006, which became effective on 8 September 2006 and which was subsequently amended on 22 June 2009
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Ministry of Commerce” or “MOFCOM”	中華人民共和國商務部 (Ministry of Commerce of the PRC*)
“MNC(s)”	multi-national corporation(s)
“Mr. Sze”	Mr. Sze Ching Bor (史清波), a non-executive Director of our Company, one of the founders of our Group and a Controlling Shareholder
“Mr. Tsang”	the late Mr. Tsang Chin Tiong (曾晉忠), one of the founders of our Group

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“National Development and Reform Commission of the PRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*)
“National EVA Slipper and Sandal Industry Standard”	《乙烯—醋酸乙烯酯共聚物EVA拖鞋和涼鞋 (QB/T 2977-2008)》(national industry standard for EVA slippers and sandals (QB/T 2977-2008)) drafted by Quanzhou Baofeng and 中國皮革和製鞋工業研究院 (China Leather and Footwear Industry Research Institute*) and approved by National Development and Reform Commission of the PRC
“New Land”	the parcel of land owned by Quanzhou Baofeng with a site area of approximately 36,581.5 sq.m. located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, the PRC
“New Shares”	250,000,000 new Shares being offered by us for subscription under the Global Offering
“Note Agreement”	Exchangeable Note Purchase Agreement entered into by and among CITIC Capital, our Company, Baof HK, Quanzhou Baofeng, Best Mark, Fortune Best, Capital Vision, Active Logic, Joy Wise, Mr. Tsang, Mr. Sze, Mr. Zheng Guozhang and Mr. Chen Qingwei on 8 August 2008, pursuant to which CITIC Capital subscribed from our Company one exchangeable note, one preference share and one option for a consideration of US\$10 million
“OEM”	acronym for original equipment manufacturer, a business that manufactures and possibly modifies goods or equipment for branding and resale by others and in the context of our Group, it includes the business of designing and manufacturing the 2010 Shanghai World Expo Products
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003%) and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed or purchased pursuant to the Global Offering and to be determined on or before the Price Determination Date, which will not be higher than HK\$2.98 per Offer Share and is currently expected to be no less than HK\$1.99 per Offer Share
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option

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## DEFINITIONS

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“Over-allotment Option”	the option to be granted by our Company to the Sole Global Coordinator (on behalf of the International Underwriters) exercisable at the sole discretion of the Sole Global Coordinator on behalf of the International Underwriters, pursuant to the International Underwriting Agreement at any time from the date of the Price Determination Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offer, pursuant to which our Company is required to issue and allot up to an aggregate of 52,500,000 additional Offer Shares representing 15% of the initial number of the Offer Shares, at the Offer Price, to cover, among other things, over-allocations in the International Placing, if any, details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	中國人民銀行 (the People’s Bank of China*), the central bank of the PRC
“Po Fai Travel Trading”	a general partnership between Mr. Sze and Mr. Tsang, which carried on business under the name of Po Fai Travel Trading Company (寶輝旅遊貿易公司) and invested in Quanzhou Baofeng during the period from 3 September 2004 to 22 February 2008
“Pounds”	British Pounds, the lawful currency of the United Kingdom
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC including all government subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	北京市競天公誠律師事務所 (Jingtian & Gongcheng*), our legal advisers as to PRC law
“Price Determination Date”	the date, expected to be on or around Monday, 24 January 2011 but no later than Wednesday, 26 January 2011, on which the Offer Price is fixed for the purpose of the Global Offering
“Price Law”	中華人民共和國價格法 (Price Law of the PRC*) promulgated on 29 December 1997, which became effective on 1 May 1998

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## DEFINITIONS

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“PVC”	polyvinyl chloride, a type of synthetic polymer made through aggregation of vinyl chloride
“Quanzhou Baofeng”	泉州寶峰鞋業有限公司 (Quanzhou Baofeng Shoes Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC on 14 July 1999 and a wholly-owned subsidiary of Baof HK
“R&D”	acronym for research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, further information on which is set forth in the sub-section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted by our Shareholders to our Directors in relation to the repurchase of our Shares, further information on which is set forth in the sub-section headed “Statutory and General Information — Further Information about our Company — 3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011” in Appendix VI to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC*), the PRC governmental agency responsible for matters relating to foreign exchange administration
“Sales Points”	the locations operated by our distributors or other third parties where our branded products are sold to end consumers
“Sale Shares”	100,000,000 Shares to be offered for sale by the Selling Shareholders at the Offer Price under the International Placing
“Selling Shareholders”	CITIC Capital, Best Mark and Fortune Best
“SFC”	the Securities and Futures Commission of Hong Kong



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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	the ordinary shares of our Company with a nominal value of US\$0.01 each
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 8 January 2011, a summary of its principal terms is set forth in the paragraphs under “Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of Shares
“slippers”	partially-covered footwear, generally with straps or thongs assembled to the sole which are usually made of rubber, plastic, EVA or a combination of such materials
“sq. m.”	square metre(s)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Best Mark and the Sole Lead Manager pursuant to which the Sole Lead Manager may borrow up to an aggregate of 52,500,000 Shares from Best Mark for the purpose of covering over-allocations in the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“STTC”	Ser Thong Tat Construction Pte Ltd, a limited exempt private company incorporated on 29 May 1990 under the laws of Singapore and dissolved on 6 May 2009, which was held as to 50% by Ser Sik Kin and 50% by Ser Thong Koo (both are nephews of Mr. Sze) on trust for and on behalf of Mr. Sze and Mr. Tsang, who beneficially owned 90% and 10%, respectively, of the company
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the period comprising the three years ended 31 December 2009 and the nine months ended 30 September 2010

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“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“USD” or “U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the securities laws of the United States, including the Securities Act of 1933, as amended, and the regulations of the U.S. Securities and Exchange Commission promulgated pursuant thereto
“World Expo Booth”	a sales booth set up by Quanzhou Baofeng at the World Expo Exhibition Hall for the sale of 2010 Shanghai World Expo Products from May 2010 to October 2010
“2008 Exchangeable Note”	the exchangeable note issued pursuant to the Note Agreement
“2010 Shanghai World Expo”	the World Expositions for the year 2010 held in Shanghai, the PRC
“2010 Shanghai World Expo Products”	licensed slipper products designed and manufactured by Quanzhou Baofeng on the theme of the 2010 Shanghai World Expo and bearing the trademark of the 2010 Shanghai World Expo
“%”	per cent.

*The English names of the PRC entities mentioned in this prospectus marked “\*” are translations from their Chinese names and they are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

*For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in RMB and USD have been translated into HK\$ at the rate of RMB1.00 = HK\$1.17 and USD1.00 = HK\$7.77. No representation is made that the RMB and USD amounts could have been, or could be, converted into HK\$ at such rates or at any other rate on such date or on any other date.*

*Unless otherwise specified, all references to any of our shareholdings assume no exercise of the Over-allotment Option.*

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## RISK FACTORS

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*You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that most of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business, financial condition and results of operations may be materially adversely affected by any of these risks. The trading price of the Shares may decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

#### **Our sales depend on our own ability and our OEM customers' ability to keep in pace with changes in consumer preferences and increasing demand for design and quality**

Our products, and in particular our Boree brand products, are closely tied with fashion trends. The success and popularity of our branded products therefore depend on our ability to keep in pace with changes in consumer preferences and to design marketable and appealing products accordingly. In particular, since our Boree brand products generally have fashionable designs, if we pursue our business strategy to focus on promoting this brand, our susceptibility to the risk associated with changing consumer preferences may increase.

Similarly, the demand for our OEM products also depends on whether our OEM customers are able to create product designs with sufficient market appeal for our production. If they are unable to do so, the demand for our OEM products may decrease leading to a decrease in the size of subsequent OEM product orders placed with us. As our success is directly affected by the performance of our OEM customers, their inability to keep in pace with consumer preferences and increasing demand for quality and design may adversely affect our results of operation and financial condition. No assurance can be given that we or our OEM customers will be able to anticipate changes in consumer preferences accurately or to respond in a timely manner.

Furthermore, according to the Frost & Sullivan Report, the focus of the competition in the PRC slipper industry is gradually shifting from price to design and quality. As such, an increasing reliance is placed on our design capability and on our quality control system to ensure that the products we produce can satisfy the increasing demand for design and quality by consumers. This may increase our cost of sales and have an adverse impact on our results of operation. We cannot assure you that we will always be able to adapt in pace with the expected increase in consumer demand for design and quality.

A failure to anticipate and respond to fashion trends and higher consumer demand for design and quality promptly may result in lower sales and therefore lower operating profits. Similarly, if we fail to appreciate or underestimate the extent of any anticipated increase in consumer demand for our products, we may experience a loss of sales opportunities, which may also have an adverse impact on our goodwill, corporate image and profitability.

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## RISK FACTORS

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### **We have a limited operating history in our branded product business**

Whilst we have been supplying slippers on an OEM basis for many years, we only have a limited operating history in our branded product business. The launch of our branded slippers in 2007 was a move by us into a new business area. We expect to face intense competition in the industry from other companies, including both domestic and MNCs who may have more experience and financial resources as well as a wider geographic coverage than us. We may also face challenges in our branded product business due to difficulties in forecasting market demand based on limited historical data.

Moreover, the PRC slipper market, including the own-branded slipper market, has been on a growth phase since the launch of our branded product business. We have not experienced a decline or downturn in the branded slipper market as yet, and may therefore lack the experience to handle the situation and retain our market position when this situation arises. Moreover, our entry into a new business may also put pressure on our managerial, technical, financial, production, operational and other resources. No assurance can be given that our operating experience in the OEM business would necessarily give us a solid foundation to develop our branded product business in the PRC. If we are unable to successfully address these challenges, our branded product business may be adversely affected, which may in turn have a material adverse effect on our financial condition, results of operations and prospects. Investors should consider our business and prospects in light of the risks and difficulties we face with a limited operating history in our branded product business and should not rely on our past results as an indication of our future performance.

### **Our business operations are subject to fluctuations in the price of certain raw materials including plastic**

The principal raw material used in the production of our slippers is plastic (including plastic-related materials). For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, the total amount of plastic purchases accounted for approximately 54.7%, 52.3%, 55.1% and 52.0% of our total amount of raw material purchases, respectively. We are exposed to fluctuations in the price of this type of raw material which is influenced by global and regional supply and demand conditions as well as the prevailing prices of crude oil. Fluctuations in the prices of raw materials may adversely affect our financial performance. We did not enter into any commodity derivative instruments to hedge against potentially adverse commodity price changes during the Track Record Period.

For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, aggregate purchases from our five largest suppliers accounted for approximately 30.6%, 33.1%, 28.2% and 26.2%, respectively, of our purchases, and purchases from our largest supplier accounted for approximately 12.3%, 8.0%, 12.0% and 9.1%, respectively, of our purchases. We do not enter into long-term agreements with our suppliers. Therefore, if one or more of our key suppliers demand higher prices from us on short notice, there is no assurance that we would be able to locate an alternative supplier who would be willing and able to supply the quantity we require at a more favourable price in time to meet our customers' demands. Ultimately, we may have to bear a portion of the burden arising from

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## RISK FACTORS

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unfavourable fluctuations in the cost of certain raw materials passed on to us by our suppliers. In these circumstances, if we are unable to pass on any increase in raw material costs to our customers by increasing the sales price of our products, our cost of sales and our gross profit margins may be adversely affected. As a result, our results of operations and financial condition may be adversely affected.

### **We rely on our OEM customers for a significant portion of our total revenue**

We rely on our OEM customers for a significant portion of our total revenue. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, aggregate OEM sales accounted for approximately 95.3%, 93.6%, 79.5% and 62.5% of our total revenue, respectively. Aggregate sales of our top three customers, which are all OEM customers, accounted for approximately 52.3%, 34.5%, 29.5% and 18.9%, respectively, and aggregate sales to our single largest OEM customer accounted for approximately 24.1%, 17.4%, 13.9% and 9.9% of our total revenue for each of the same periods, respectively. We do not have long-term purchase commitments from our key OEM customers. Therefore our customers are not obliged to continue to place orders with us at the same level as before or at all. The loss of one or more of our key OEM customers or reduced orders by one or more of our key OEM customers may adversely affect our results of operations.

### **Demand for slippers in the PRC and in our export destinations abroad can be volatile and any decrease in demand in these regions may have a significant adverse impact on our results of operations**

Any change in market demand levels for slippers will have a significant effect on our results of operations and financial condition. Demand for slippers is sensitive to many factors, including cyclical and other changes in regional and global economic conditions. Our results of operations for our OEM slippers are linked to the economic conditions and general level of spending on slippers in regions where our slippers are shipped. We derive a significant portion of our revenue from sales of slippers to customers in the PRC. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, revenue generated from our products sold to customers in the PRC accounted for approximately 64.4%, 58.3%, 74.2% and 83.3%, respectively, of our total revenue. We also export a significant portion of our products to regions including the United States, South East Asia, Europe and South America. Therefore, an economic downturn in the PRC or in any of these overseas regions may significantly decrease the demand for our products, particularly our branded slippers with fashionable designs, which generally have a higher average selling price than traditional slippers. Due to the cyclical nature of the slipper industry, sales of our slippers may remain stagnant and may even decline from current levels. A downturn in the market for slippers in the PRC or in our export destinations abroad may have a significant adverse impact on our results of operations and financial condition.

Likewise, our branded business is susceptible to economic changes and other factors that affect demand in the PRC. In particular, our ability to successfully promote our branded product business in the PRC will depend on the PRC's continued economic growth and

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## RISK FACTORS

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growing consumption by consumers in the PRC. If disposable income and spending on branded slippers, especially slippers with fashionable designs, in the PRC does not grow as expected, or if the PRC suffers from a slowdown in its economic development, our branded product business and branding strategy in the PRC may be adversely affected.

### **Our sales may decline if we fail to effectively market and promote our branded products**

We have launched various marketing campaigns to promote our branded product business. Our Directors believe that these marketing campaigns have strengthened the recognition and image of our brands in the PRC, and has thereby contributed to the increase in revenue generated from our branded product business over the Track Record Period. However, there is no assurance that we will be able to continue to develop and organise marketing campaigns that will be popular. Our competitors may rival with us by organising similar campaigns or by developing more appealing ones. We cannot assure you that our efforts in marketing will be effective in the future. In particular, any large scale marketing campaign that does not produce a favourable outcome may have an adverse impact on our corporate image and results of operations.

### **Our success depends on our ability to attract quality distributors and on the success of our distributors**

During the Track Record Period, save and except the World Expo Booth which was operated by us from May to October 2010, we did not own or operate any Sales Points ourselves. To the best knowledge and information of our Directors, all Sales Points are operated by Independent Third Parties. We rely on our distributors to distribute our branded products across various provinces and regions of the PRC. For each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, we derived approximately 4.7%, 6.4%, 20.5% and 37.5% respectively, of our revenue from sales of our branded products.

As at 30 September 2010, we had a total of 27 distributors. Among these distributors, there were 23 Boree brand distributors, 23 Baofeng brand distributors and 19 common distributors of both Boree and Baofeng brand products. As at 30 September 2010, our Boree brand products were sold to end consumers at no less than 524 Sales Points across 26 provinces, autonomous regions and municipalities in the PRC. We rely on our distributors to secure our geographical coverage and achieve market penetration in the PRC. However, we cannot assure you that our distributors will continue to purchase our products at current levels. If any of our distributors terminate or does not continue its business relationship with us, we may not be able to find a suitable replacement in time, which may result in a loss of sales opportunities and may adversely affect our results of operations.

Further, sales levels may fluctuate for each distributor and at each Sales Point. The number of Sales Points that our distributors can distribute our products may also vary from time to time. This may increase the level of volatility in our results of operations and create difficulties for us in terms of production planning.

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## RISK FACTORS

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Moreover, our distributors are each responsible for establishing a sales network in their respective designated district(s). We rely on these distributors and potential distributors to assist us in exploring new markets to sell our branded products and identifying potential locations for new Sales Points. We believe that this distributorship model allows us to achieve market penetration and extend our geographical coverage with shorter ramp-up time and less capital outlay. However, there is no assurance that we will always be able to attract a sufficient number of quality distributors to maintain or expand our branded product business. Further, if any of our distributors is unable to meet their target annual sales, we may not be able to expand our branded product business profitably or as we plan.

As at 30 September 2010, 9 of our 27 distributors had not undergone certain business registration procedures. Sales to these distributors accounted for approximately 10.4% of our total revenue for the nine months ended 30 September 2010. According to our PRC Legal Advisers, there will be no adverse legal impact on our Group by reason of our distributors' failure to undergo the necessary business registration procedures. However these distributors may be subject to administrative penalties, such as a fine and in the worst scenario, may be required to cease their business operations. We cannot assure you that the relevant PRC authority will not require any of these distributors to cease their business operations for non-compliance with these procedures. If any of our distributors is required to cease their business operations as a result of non-compliance with such registration requirements and if we are unable to find an alternative distributor in time or at all, our results of operations, market share, geographical coverage and relevant brand image(s) may be adversely affected. Further, we cannot assure you that our distributors have complied with all other PRC laws and regulations that may potentially affect their business operations. We also cannot assure you that they have or will have sufficient resources to deal with unexpected changes in the regulatory, economic or business environment or other factors beyond their control.

### **Our ability to monitor the performance of our distributors and the quality of service provided by sales staff at the Sales Points is limited**

We rely on our distributors to adhere to all of our operational and management policies and all sales staff working at the Sales Points to provide appropriate service. We have a set of policy documents on sales management and marketing promotion. However, it is difficult for us to oversee or monitor the day-to-day operations of our distributors to ensure compliance with our policies. No assurance can be given that we will be able to identify all cases of non-compliance by our distributors. Failure by our distributors to adhere to our policies may have an adverse impact on our brands images and may adversely affect our results of operations.

Training seminars are also provided to sales staff of the Sales Points. However, no assurance can be given that our system for monitoring the performance of the sales staff of the Sales Points is sufficient to enable us to identify all incidents of non-compliance with our policies or inappropriate service.

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Further, we have limited control over the sales staff of the Sales Points as we do not have a direct contractual relationship with any of them. As such, we have no direct mechanism to control the way our products are marketed or sold at various Sales Points. No assurance can be given that appropriate sales methods or means which are consistent with the respective images of our brands will be employed. Poor or inappropriate service may result in damage to the respective images of our brands and to our reputation.

We may control the risk of non-compliance and poor or inappropriate service to some extent by deciding not to renew or if possible, by terminating our distributorship agreements with the relevant distributor once we become aware of the problem. However, we cannot assure you that we will always be able to identify the problem and take action in a timely manner. In the event that we fail to do so, the image of our brands and our reputation may suffer, which may in turn have an adverse effect on our business, results of operations and financial condition.

### **Our operations may be subject to disruption arising from certain imperfections in title in respect of the High-Tech Asset Production Property**

As at the Latest Practicable Date, we leased and occupied the High-Tech Asset Production Facility located at the High-Tech Asset Production Property. The High-Tech Asset Production Facility consists of workshops, warehouses, dormitories and offices. As advised by our PRC Legal Advisers, the third-party landlord of the High-Tech Asset Production Property is required to but has not obtained the planning licence for constructing the High-Tech Asset Production Facility as the facility was not constructed in accordance with the authorised planning of the local town. The lack of relevant construction project planning licences may result in the invalidity of the tenancy agreement. As a result, we may not be able to defend our leasehold interests against the relevant PRC authorities should they decide to enforce their rights on the High-Tech Asset Production Property.

If the relevant PRC authorities enforce their rights on the High-Tech Asset Production Property, we may be required to cease occupation and usage of the High-Tech Asset Production Facility, in which case, we will adopt the following contingency plan:

- (a) we will relocate our warehouses at the High-Tech Asset Production Facility to nearby premises to be rented from third parties;
- (b) at the same time, we will relocate our warehouses at the Huoju Production Facility to nearby premises to be rented from third parties. We will then relocate our manufacturing facilities in the workshops as well as the dormitories and offices from the High-Tech Asset Production Facility to the Huoju Production Facility; and
- (c) at the same time, we will also directly purchase midsoles and outsoles from third-party suppliers and/or subcontract the production of our midsoles and outsoles to third-party sub-contractors.



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Our Directors estimate that all the steps involved in the above contingency plan can be completed within approximately 65 working days. The expected total relocation cost is approximately RMB1 million and the expected cost of renting a temporary storage premises should be no more than approximately RMB425,000 per month. The third-party landlord has undertaken to indemnify us for all losses, including loss of any reasonably expected benefits, which may be suffered by us as a result of the invalidity of the tenancy agreement. Please see the sub-section headed “Our Business — Production — Our production facilities and capacities — Contingency plan” in this prospectus for further details.

Should we decide to relocate, in the event of any delay beyond a reasonable period of time in the relocation of the High-Tech Asset Production Facility, we may face significant disruptions to our Group’s operations and our business may be materially and adversely affected. In addition, as part of the contingency plan to minimise the disruption to our production schedules, we plan to subcontract the manufacture of the outsoles and midsoles to third-party sub-contractors in the event of relocation. To the extent that any of our sub-contractors is unable to provide us outsoles and midsoles in accordance with our requirements at favourable prices or at all, our operating results and financial condition may be adversely affected.

### **The prices of our branded products are subject to factors beyond our control**

The prices at which we sell our branded products are subject to supply and demand fluctuations inherent in the market. We do not have any agreements with our distributors that provide for a minimum price at which our distributors must sell our branded slippers.

We do, however, provide suggested retail prices for our Boree brand products, which may be adjusted by our distributors according to market conditions. As such, the ex-factory prices we charge our distributors must match our distributors’ expectations of the retail price of our branded products. If our distributors believe that our suggested retail prices do not justify the ex-factory prices we are offering them, we may be required to lower our ex-factory prices. If we are required to lower the ex-factory prices of any of our Boree brand products, our sales targets, financial condition, and results of operations may be adversely affected. Further, if our distributors sell our branded products at prices below market value, the image of the relevant brand may be adversely affected, which may in turn have an adverse impact on our results of operation and profitability.

### **We do not have long-term purchase commitments from our OEM customers, which may lead to significant uncertainty and volatility with respect to our period to period revenue**

For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, aggregate sales to our OEM customers accounted for approximately 95.3%, 93.6%, 79.5% and 62.5%, respectively, of our total revenue. We do not have long-term purchase commitments from our OEM customers and our sales are made on the basis of individual purchase orders. Our customers’ purchase orders may vary significantly from period

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## RISK FACTORS

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to period, and it is difficult to forecast future order quantities. We cannot assure you that any of our customers will continue to place purchase orders with us in the future at the same volume, or at the same price, as compared to prior periods. We also cannot assure you that the volume and price under our OEM customers' purchase orders will be consistent with our expectations. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

### **Our branded product business may adversely impact our relationships with existing OEM customers**

Our Boree brand targets the growing demand for slippers with fashionable designs in the PRC and our Baofeng brand targets the growing demand for traditional slippers in the PRC. Our branded product business may place us in direct or indirect competition with our OEM customers for whom we manufacture slippers, as some of our OEM customers may have entered or may plan to enter the PRC market and may target the same or similar market segments as us. As a result, our OEM customers may reduce or discontinue their purchase orders with us, which may result in a decrease in our OEM sales volume and revenue. As explained in greater detail in the sub-section headed "Our Business — Our Business Strategies" in this prospectus, we are planning to shift our business focus towards developing our branded product business. Therefore, to the extent that we are unable to offset any loss in OEM sales volume and revenue by corresponding gains in our branded product business, we may experience an overall decrease in sales volume and/or revenue. In these circumstances, our results of operations and financial condition may be adversely affected.

### **Our ability to accurately track the sales and inventory levels of our distributors and Sales Points may be limited**

Our system for tracking the sales by our distributors and at the Sales Points, and consequently their respective inventory levels, may be limited. We are in the process of installing a DRP System in phases to track inventory levels in a real-time environment and forecast demand for our products at certain Boree Sales Points. However, there is no assurance that we will be able to procure the consent of all relevant distributors and/or third parties required for the installation of the DRP System. Therefore we may not be able to install the DRP System at all of the Boree Sales Points. For those Sales Points at which we are unable to install the DRP System, we may rely only on the information provided by our distributors. Further, pending completion of the installation and linkage of the DRP System, we may not be able to ensure the accuracy of the data provided by the relevant distributors. As such, we may not be able to accurately track the sales and inventory levels or to identify or prevent any excessive inventory build-up at all of the Sales Points. If our distributors or the relevant staff at the Sales Points are unable to manage their respective inventory levels, their future orders of our products may become difficult to monitor or predict, which may increase the volatility in our results of operations and create difficulties for us in terms of production planning.

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### **We depend on sub-contractors to manufacture a portion of our products for us**

We engage sub-contractors to manufacture a portion of our products according to our specifications. For each of the three years ended 31 December 2009, approximately 5.1%, 4.6% and 14.2% of our total cost of sales were attributable to subcontracting costs, respectively. For each of the nine months ended 30 September 2009 and 30 September 2010 approximately 10.8% and 19.7% of our total cost of sales were attributable to subcontracting costs, respectively. Due to our dependence on these sub-contractors, we face several significant risks, including, but not limited to:

- difficulty in securing sufficient production capacity at a reasonable cost or at all; and
- limited control over delivery schedules, quality assurance and control, manufacturing yields, and production costs.

The ability of a sub-contractor to manufacture our products is limited by its production capacity. None of our sub-contractors are contractually bound to allocate a fixed amount of production capacity to us. We do not have any long-term agreements with any sub-contractors and we typically place orders on an individual basis, depending on the purchase orders from our customers. It is possible that other customers of our sub-contractors are of a larger scale and are more well-financed than we are, or have long-term agreements with our sub-contractors, and our sub-contractors may allocate their production capacities to these customers during times of production capacity shortages. Any shortfall in such available production capacity could significantly affect our ability to deliver our products on time, which may result in a loss of revenue and may damage our relationships with our customers. In addition, if the cost of subcontracting increases and we are unable to pass on such higher costs to our customers, our profit margins may be significantly reduced and may therefore adversely affect our financial condition and results of operations.

### **Possible slowdown or reversal in the trend to subcontract the manufacturing of slippers to PRC-based manufacturers may adversely affect our growth prospects and profitability**

In recent years, footwear companies including companies engaged in the supply of slippers have increasingly subcontracted stages of the footwear production process, including the manufacturing process, to third-party companies to reduce costs and shorten production cycles. The PRC has been a major subcontracting destination and PRC-based manufacturers of footwear, such as ourselves, have been the primary beneficiaries of this subcontracting trend. We cannot assure you that these footwear companies will continue to subcontract their manufacturing processes to PRC-based manufacturers, such as ourselves. If they choose another subcontracting destination due to cheaper labour cost or other considerations, this may result in a decrease in the demand for our services and adversely affect our growth prospects and profitability.

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### **We rely on key management personnel and may not be able to attract and retain talented personnel**

Our future success depends heavily upon the continued services of our senior executives and other key employees. In particular, we rely on the experience of our executive Directors to develop our business strategies and products and to oversee our business operations, sales and marketing, and to cultivate and maintain business relationships with our customers. If any of our executive Directors is unable or unwilling to continue in his present position, we may not be able to replace him easily or at all and our business, financial condition and results of operations may be materially and adversely affected. We may have to incur additional expenses to recruit, train and retain personnel and may not be able to achieve our strategic objectives at a similar cost.

### **We may face challenges in the implementation of our business strategies**

We have several key business strategies aimed at capturing anticipated market opportunities and expanding our business, details of which are explained in the sub-section headed “Our Business — Our Business Strategies” in this prospectus. We believe our success in pursuing these strategies will have a significant effect on whether we will be able to increase revenue, net income and cash flow in the future. Our competitors may have more financial resources than us and there is no assurance that we can compete with them in pursuing any potentially common business strategies. If we are unable to manage our business strategies successfully, our profitability and growth may be adversely affected.

Further, in pursuing our business strategies, we expect our working capital needs and our capital expenditure needs will increase significantly in the future. Our ability to raise additional capital will depend on the financial success of our current business and other factors including economic and market conditions, some of which are beyond our control. We cannot assure you that we will be able to raise the necessary capital in time and on reasonable terms or at all. Further, if we opt for equity financing, this may also have a dilutive effect on our Shareholders. We may also require additional debt financing in the future, which may require us to enter into restrictive covenants that may limit the options we have available in the conduct of our future business operations. Servicing these future debts will also restrict our cash flow and consequently our business operations, results of operations and financial condition.

### **We may face challenges in managing and/or fully utilising our new production facilities**

As part of our expansion plan, we intend to, among others, construct new production facilities to increase our current production capacity. Please see the sub-section headed “Our Business — Property” in this prospectus for further details. In view of the size of the investment, should we fail to manage the construction of the new production facilities properly, including cost control, we may encounter cash flow problems. There is no assurance that we will be able to generate extra demand for our products to fully utilise the production facilities

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on the New Land. To the extent that we experience a decrease in demand due to economic conditions or escalated competition or otherwise, we may not be able to recover our investment cost in the new production facilities or at all. In these circumstances, our profitability and financial condition may be adversely affected.

**Our business may be adversely affected by inadequate protection of intellectual property rights and/or claims by third parties for possible infringement of their intellectual property rights**

We believe that our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include the trademarks for our Boree and Baofeng brands, as well as patents for certain technologies. We are also currently applying for the registration of trademarks for a number of logos. The success of these applications depends on a number of factors and we cannot guarantee that we will be successful in registering the trademarks currently under application or trademarks which we may develop in the future. Further, we depend, to a significant extent, on PRC laws to protect our trademarks, patents or other intellectual property rights. There is no assurance that third parties will not infringe our intellectual property rights such as through the production and sale of counterfeit products. There is no assurance that we will always be able to identify cases of infringement or potential infringement of our intellectual property rights. If there are counterfeits of our branded products on the market, the image of our brands and our reputation as to quality may be adversely affected. Further, our efforts in enforcing or defending our intellectual property rights may not be adequate, and enforcing or defending such rights may require significant attention from our management team and may be costly. The outcome of any legal action to protect or safeguard our intellectual property rights may adversely affect our business, financial condition, results of operations and prospects.

Third parties, including our competitors, may believe that our slippers have infringed their intellectual property rights and initiate legal proceedings against us. If any legal proceeding against us for infringement of intellectual property rights is successful, we may be ordered to cease carrying on such infringing behaviour. Intellectual property litigation against us may have a material adverse impact on our business and results of operations. According to our PRC Legal Advisers, our Company had used certain promotional materials that bore resemblance to certain movie posters. Although we have ceased using such promotional materials, no assurance can be given by our PRC Legal Advisers or by us that the owner of the intellectual property rights of the relevant promotional materials will not bring any claims or lawsuits against us and that the relevant PRC authority will not hold us liable for infringement of intellectual property rights arising from our use of such promotional materials in the past if such claims or lawsuits are brought against us. Our Controlling Shareholders have agreed to indemnify us for all losses arising from our use of such promotional materials in the past.

We may also be subject to other legal and equitable claims, which may damage our reputation and image, and such proceedings and their consequences may divert management attention from our business operations. Any of the foregoing may have material adverse impact on our business and results of operations.

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### **We are exposed to the risk of foreign exchange fluctuations**

We are subject to transactional currency exposures. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, approximately 35.6%, 41.7%, 25.8% and 16.7% respectively, of our sales were denominated in U.S. dollars. The value of the RMB against other foreign currency is subject to changes in the PRC Government's policies and international and economic developments. In July 2005, the PRC Government abolished the fixed exchange rate system, in which the RMB was pegged against the U.S. dollar, and adopted a managed floating exchange regime. Further, it has been suggested recently that foreign countries are putting more pressure on the PRC Government to adopt a more flexible currency system, which may lead to a further appreciation of the RMB. The RMB may be re-valued further against the US\$ or other currencies or may be permitted to enter into a full or limited free float, which may affect the value of the RMB against the US\$ or other currencies.

We may face increased competition from imported slippers and other products and our exported products may become less competitive if the RMB appreciates. Conversely, depreciation in the value of the RMB may lead to an increase in the cost of our raw materials, and increase our costs of production. It may also materially and adversely affect the value and any dividends payable on our shares, our earnings and assets as well as our ability to fulfil any of our foreign currency denominated obligations.

### **Our insurance coverage may not be sufficient to cover the risks relating to our operations and potential losses**

Our operations are subject to hazards and risks that are typically associated with manufacturing operations which may cause significant injury or damage to person or property. We carry insurance to protect ourselves from a range of contingencies including, among others, risk of loss and theft of, and damage to, among others, property, plant and equipment, and inventory in all of our production facilities and warehouses, and the social insurances required under PRC law. For details on the insurance requirements under PRC law, please see the section headed "Regulations" in this prospectus. However, no assurance can be given that our insurance coverage will be able to cover all types of, or be sufficient to cover the full extent of any loss, theft, damage or injury to person or property for which we may be held liable.

We also face exposure to product liability claims in the event that any of our products are alleged to have resulted in property damage, bodily injury or other adverse effects. Insurance coverage for product liability is not a requirement under PRC law. We do not have insurance coverage for product liability. As such, we may be exposed to product liability claims and may have to expend significant financial and managerial resources to defend such claims or enter into settlement agreements. This may divert resources away from pursuing our business strategies and have an adverse impact on our results of operations and financial condition, and may also affect our reputation and the image of our brands.

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Our ability to meet the demand of and our contractual obligations to our customers as well as our ability to grow our business are all heavily dependent on the efficient, proper and uninterrupted operations of our facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the destruction of buildings, and other facilities due to fire or natural disasters such as hurricanes, severe winter storms, flood, droughts or earthquakes will severely affect our ability to continue our operations and may cause significant property damage and personal injuries. As at the Latest Practicable Date, we did not carry any business interruption insurance and our existing insurance policies may not be sufficient to compensate us for any losses arising from damage to our buildings, equipment and infrastructure. In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any events and any losses or liabilities that are not covered by our current insurance policies may have a material adverse impact on our business, financial condition, results of operations and prospects.

**Our OEM export sales may fluctuate and may be restricted by anti-dumping measures or the imposition of tighter technical standards by the governments of our export destinations abroad**

A significant portion of our OEM products are exported overseas to regions including the United States, South East Asia, Europe and South America. Our OEM products are subject to the respective laws, regulations and industry standards in the jurisdictions where they are exported to. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our total export sales revenue was approximately RMB152.8 million, RMB208.4 million, RMB 151.6 million and RMB105.8 million, respectively, which accounted for approximately 35.6%, 41.7%, 25.8% and 16.7% of our total revenue, respectively. Our largest export destination is the United States. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our export sales revenue to the United States was approximately RMB125.6 million, RMB185.3 million, RMB131.0 million and RMB85.2 million, respectively, which accounted for approximately 29.3%, 37.1%, 22.3% and 13.4% of our total revenue, respectively. Our export sales fluctuated during the Track Record Period due to factors such as the economic conditions of our export destinations, which are beyond our control.

In the past, the governments of some of our export destinations have adopted anti-dumping measures to exclude imported footwear in order to protect their local industry. A number of these countries and regions have also passed standards relating to security, hygiene, technology and the environment, some of which have impacted on footwear exported from the PRC. There is no assurance that anti-dumping measures will not be adopted or that standards relating to security, hygiene, technology and the environment that affect our OEM exports, will not be further tightened in the future. To the best knowledge and information of our Directors, none of our products were subject to any anti-dumping measures and duties in each of the countries where our products were exported. However, there is no assurance that

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our products will not be subject to any anti-dumping measures and duties in any of the countries where our Group's products are or will be exported in the future. Should any of such events occur, our OEM export sales may drop substantially and hence our financial condition, results of operations and prospects may be adversely affected.

### **Our manufacturing operations are subject to various customer-imposed safety, health and environmental guidelines that may increase our costs and adversely affect our results of operations**

We are subject to a variety of guidelines relating to safety, health and environmental conditions imposed by our customers. The failure by us and/or our sub-contractors to comply, or the allegation of non-compliance, with any present or future customer guidelines may result in the loss of customers or a cessation of operations and damage to our reputation. Conversely, adhering to these various guidelines imposed by our customers may require significant capital outlay and labour costs. We may have to invest resources into specification testing machines and recruit additional employees to test and ensure our customers' expectations are met. This may increase our cost of sales and adversely affect our results of operations.

### **Waivers granted by relevant PRC authorities in relation to certain instances of non-compliance with PRC laws and regulations may be revoked by higher authorities**

There have been some instances of non-compliance with PRC laws and regulations for which, in certain cases, waivers from the imposition of penalties or other consequences have been issued by the relevant PRC authorities in the form of confirmations. For details of such instances of non-compliance, please see the sub-section headed "Our Business — Litigation and Legal Compliance" for further information.

If higher authorities in the PRC take a position different from those set out in the relevant confirmations and/or our Controlling Shareholders fail to indemnify us to a sufficient extent or at all, we may be required to pay certain penalties or damages. In these circumstances, to the extent that we are required to make significant penalty payments or incur other liabilities, our reputation, cash flow and results of operations may be adversely affected.

## **RISKS RELATING TO THE SLIPPER INDUSTRY**

### **The branded slipper industry is becoming increasingly competitive in the PRC**

The branded slipper industry in the PRC may become more competitive in the future and increasingly characterised by frequent introduction of new designs, short product life cycles, price sensitivity, and increase in consumer demand for quality and timely delivery. We cannot assure you that we will be able to sustain our competitive position in the future. To the extent that we are not able to design or introduce to the market slippers of the latest designs as quickly as other branded slipper suppliers, our operating results may be materially and adversely affected.



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### **Sale of slippers is subject to seasonality**

The sale of slippers is subject to seasonality. We typically achieve higher sales from November to April each year when we sell our spring/summer collection. This may be due to an increase in demand for our exports by our OEM customers in preparation for spring/summer. Unexpected and abnormal changes in climate may, however, affect the sales of our slippers that are timed for release during a particular season. For example, a cool summer may affect the sales of our spring/summer collection. Our results of operations may also be adversely affected by infectious disease outbreaks or other unpredictable events that are more likely to take place in summer. Further, as a result of these fluctuations, comparisons of sales and results of operations between different periods within a single financial year, or between different periods in different financial years, may not be meaningful and may not be indicative of our performance.

In addition, during peak seasons we may not have the production capacity to meet our customers' demands and may have to subcontract some of our orders out to third parties. As a result, our ability to plan our production may be affected and our profit margins may decrease. Conversely, during off-peak seasons, we may not be able to fully utilise our production capacity and as such our cost of sales per product may increase due to the inability to fully utilise our production capacity. As such, seasonality in the demand for slippers may also have an adverse impact on our production planning and profit margins.

To alleviate the impact of these seasonal effects on our business, we have introduced an autumn/winter collection of slippers under our Boree brand. However, no assurance can be given that this strategy will be effective or sufficient to combat these seasonal effects. Ultimately, any failure on our part to minimise the adverse impact of seasonal effects on our business may adversely affect our results of operations and financial condition.

### **RISKS RELATING TO THE PRC**

#### **Changes in political and economic policies may have an adverse impact on our operations**

Almost all of our assets are located in the PRC and all of our revenue is generated from products manufactured in our production facilities in the PRC. As such, our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, allocation of resources, capital reinvestment, level of development, growth rate, and control of foreign exchange. Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC Government. However, since 1978, the PRC Government has been promoting economic and political reforms. The economy of the PRC has shifted gradually from a planned economy toward a market-oriented economy. However, continued government control of the economy may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable

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to us. No assurance can be given that the PRC Government will continue to pursue economic reforms. A variety of policies and other measures may be taken by the PRC Government to regulate the economy, including the introduction of measures to control inflation, changes in the rate or method of taxation or the imposition of additional restrictions on currency conversions and remittances abroad. Some of these measures may have a negative impact on us although they may benefit the overall PRC economy. Our business, financial condition and results of operations may be adversely affected by some restrictive changes in the PRC Government's political, economic and social policies, tax regulations or policies, or regulations.

**Our business operations may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business**

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some cities in the PRC are under the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts. For instance, a severe snowstorm hit the southern part of the PRC, in particular, Yangtze River Delta in January and February of 2008, resulting in a breakdown of the transportation system in the southern part of the PRC and loss of agriculture products in the said areas. In May and June 2008, a serious earthquake and its successive aftershocks hit Sichuan, leading to a tremendous loss of lives and injury and destruction of assets in the region. In April 2009, a H1N1 Swine Flu broke out in Mexico and spread globally, resulting in a loss of lives and widespread fear. Our business, results of operations and financial condition may be adversely affected in a material respect if such natural disasters occur in the PRC. Certain areas of the PRC, including Fujian Province, are susceptible to epidemics, such as SARS or swine or avian influenza. A recurrence of SARS, an outbreak of swine or avian influenza, or any epidemic, in Fujian Province or other areas of the PRC, may result in material disruptions to our operations or a slowdown of the PRC's economy, which may materially and adversely affect our business, financial condition and results of operations. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our distribution channels and/or destroy our markets, which may materially affect our sales, costs, overall financial condition and results of operations. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. Our business, financial condition and results of operations may be materially and adversely affected as a result.

**Changes and uncertainties in the PRC legal system may have an adverse impact on our operations**

The PRC is still in the process of developing a comprehensive statutory framework. The PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and

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interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in PRC laws and regulations, including their interpretation and enforcement, may increase the volatility of our business operations, which may have an adverse impact on our results of operations and financial condition.

### **It may be difficult to effect service of process upon our Directors or executive officers who live in the PRC or to enforce in the PRC any judgments obtained from non-PRC courts**

All of our operations are conducted in the PRC. As at the Latest Practicable Date, all of our executive Directors and senior management personnel resided within the PRC, and all of our assets and of such persons were located in the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons in the PRC or to enforce against our Company or such persons in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of the United Kingdom, the United States or most other western countries. Therefore recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be impossible. On 14 July 2006, the PRC and Hong Kong signed the “Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matter by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned” (the “**Arrangement**”). However, investors are reminded that only monetary awards granted by Hong Kong courts are recognised by PRC courts pursuant to such Arrangement.

The PRC has adopted the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“**New York Convention**”) since 1987 which permits the reciprocal enforcement in the PRC of arbitral awards made within the territory of other New York Convention signatory countries regarding disputes arising from contractual and non-contractual commercial legal relationships, subject to certain exceptions. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC on 18 June 1999 and the Hong Kong Legislative Council on 21 June 1999, and became effective on 1 February 2000.

### **Changes in foreign exchange regulations may adversely affect our results of operations**

The PRC Government regulates the conversion between the RMB and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. Under the current foreign exchange regulations in the PRC, subject to the relevant registration with SAFE, we are able to pay dividends in foreign currencies, by complying with certain substantive and procedural requirements. However, foreign exchange transactions under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, SAFE.

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## RISK FACTORS

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There can be no assurance that the current PRC foreign exchange policies regarding debt servicing and payment of dividends in foreign currencies will remain unchanged in the future. Restrictive changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to the Shareholders in foreign currencies.

In addition, subsequent to the Global Offering, we are permitted by the PRC foreign investment regulations to invest our net proceeds from the Global Offering into our PRC subsidiary(ies), either in the form of registered capital or a shareholder loan to finance our operations. The form of investment we choose is affected by the relevant PRC regulations on capital-account and current-account foreign exchange transactions in the PRC. Foreign exchange registration with and approval by a competent PRC authority is required to transfer funds into our PRC subsidiary(ies) where it involves an increase in registered capital. Registration with the PRC authorities may also be required for shareholder loans. Shareholder loans exceeding the difference between the total investment amount and the registered capital of our subsidiary may also require approval from the PRC authorities. These regulations may limit the ability or delay the transfer of funds from our Company and members of our Group to our PRC subsidiaries which may have an adverse impact on our business operations.

### **New labour laws in the PRC may materially and adversely affect our results of operations**

As at 30 September 2010, we had 2,386 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely the 中華人民共和國勞動合同法 (Labour Contract Law of the PRC\*) (the “**New Labour Law**”), which became effective on 1 January 2008. The New Labour Law imposes additional or tougher restrictions on employers upon termination of employees, dismissal of employees, compensation upon termination and overtime work and collective bargaining. Therefore if we decide to significantly change or terminate any of our employment contracts in the PRC, the New Labour Law may materially and adversely affect our ability to respond to such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner. Thus our results of operations may be materially and adversely affected. We may also incur additional material compliance costs in connection with the New Labour Law.

### **Relevant PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate**

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiary through a Hong Kong company. Pursuant to the 中華人民共和國企業所得稅法 (PRC Enterprise Income Tax Law\*) (“**PRC Enterprise Income Tax Law**”) and its implementation rules, which were enacted on 16 March 2007 and 28 November 2007, respectively, and both of which became effective on 1 January 2008, if our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC or with an office or premises which has no actual relationship with the income of our Company, a withholding tax at the rate of 10% will be applied to any dividends paid by PRC resident enterprise to our Company, unless our Company is entitled to reduction or elimination of such

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## RISK FACTORS

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tax, including by tax treaties. According to the tax treaties entered into between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise in the PRC to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise and other conditions required by the PRC laws and regulations are satisfied, otherwise, the dividend withholding tax rate is 10%.

According to the 國家稅務總局關於執行稅收協定股息條款有關問題的通知 (Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties\*) (“**Notice 81**”) promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

According to 非居民享受稅收協定待遇管理辦法(試行) (The Administrative Measures for Non-resident to Enjoy Treatments under Tax Treaties (Trial)\*) (“**Administrative Measures**”) which came into force on 1 October 2009, in order for a non-resident enterprise (as defined under the PRC tax laws) that is in receipt of dividends from PRC resident enterprises to enjoy the favourable tax benefits under the tax arrangements, an application for approval to the competent tax authority must first be submitted. The non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties without such approval.

In addition, the PRC Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income excluding equity-investment income such as dividends and bonuses between qualified resident enterprises. Substantially all members of our management are located in the PRC. We cannot rule out the possibility that our Company may also be deemed a PRC tax resident enterprise and therefore subject to an enterprise income tax rate of 25% on our worldwide income (including dividend income received from our subsidiaries), which excludes equity-investment income such as dividends and bonuses between qualified resident enterprises. As a result of the uncertainty as to whether our Company will be deemed as a “non-PRC tax resident enterprise”, our historical operating results will not be indicative of our operating results for future periods and the value of our Shares will be adversely affected. Further, dividends payable to corporate Shareholders outside the PRC may be subject to withholding tax at the rate of 10%.

### **Payment of dividends by our operating subsidiary in the PRC is subject to restrictions under PRC law**

Under PRC law, dividends may be paid only out of distributable after-tax profits, less any recovery of accumulated losses and allocations to statutory funds as required. Any distributable profits that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain aspects. As a result, our operating

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## RISK FACTORS

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subsidiary may not have distributable profits as determined under PRC GAAP, even if they have profits for the year as determined under IFRS. Since we derive all of our funds and profits from our operating subsidiary in the PRC, we may not have sufficient funds to pay dividends to our Shareholders.

Please see the sub-section headed “Changes in foreign exchange regulations may adversely affect our results of operations” in this section of the prospectus for the relevant restrictions imposed on the payment of dividends by our operating subsidiary(ies).

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **The interests of our Controlling Shareholders may differ from those of our other Shareholders**

Immediately following the Global Offering, our Controlling Shareholders will beneficially own 51.9% of our outstanding Shares on a fully diluted basis, or approximately 49.3% if the Sole Global Coordinator (on behalf of the International Underwriters) exercises the Over-allotment Option in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause us to pursue strategic objectives that conflict with the interests of our other Shareholders, those shareholders may be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders may have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider our interests or the interests of our other Shareholders.

#### **There has not been any prior public market for the Shares and an active trading market may not develop**

An active trading market for the Shares may not develop and the trading price of the Shares may fluctuate significantly. Prior to the Global Offering, there has been no public market for the Shares. The Offer Price range has been determined through negotiation between our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the final Offer Price may not be indicative of the price at which the Shares will be traded following the completion of the Global Offering. In addition, there is no assurance that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Global Offering, or that the trading price of the Shares will not decline below the Offer Price.

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## RISK FACTORS

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The trading price of the Shares may also be subject to significant volatility in response to, among others, the following factors:

- variations in our operating results;
- changes in the analysis and recommendations of securities analysts;
- announcements made by us or our competitors;
- changes in investors' perception of our Group and the investment environment generally;
- developments in the slipper industry;
- changes in pricing made by us or our competitors;
- the liquidity of the market for the Shares; and
- general economic and other factors.

### **The trading volume and share price of the Shares may fluctuate**

The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for the merchandise sold at the Sales Points could cause large and sudden changes in the volume and price at which the Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

### **Future sales of substantial amounts of the Shares in the public market may adversely affect the prevailing market price of the Shares**

Except for the Shares issued in the Global Offering, our Company has agreed with the Sole Global Coordinator not to issue any of the Shares or securities convertible into or exchangeable for the Shares during the period beginning from the date of this prospectus and continuing through the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, except with the prior written consent of the Sole Global Coordinator. Further, the Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods commencing on the date of this prospectus and up to 12 months after the Listing Date. The Sole Global Coordinator may, in its discretion, waive or

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## RISK FACTORS

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terminate these restrictions. Please see the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer” in this prospectus for a more detailed discussion of restrictions that may apply to future sales of the Shares. After these restrictions lapse, the market price of the Shares may decline as a result of sales of substantial amounts of the Shares or other securities relating to the Shares in the public market, the issuance of the new Shares or other securities relating to the Shares, or the perception that such sales or issuances may occur. This may also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

### **Shareholders’ interests in our Company may be diluted in the future**

Our Company may issue additional Shares pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution and reduction in their earnings per share, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

### **Forward-looking information included in this prospectus may not be accurate**

This prospectus contains certain forward-looking statements and information relating to our Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate”, “believe”, “consider”, “could”, “expect”, “going forward”, “intend”, “may”, “should”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management team with respect to future events and are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this prospectus. The risks and uncertainties which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes in regulatory and operating conditions of the markets in which we operate;
- our ability to reduce costs;



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## RISK FACTORS

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- capital market developments;
- the actions and developments of our competitors;
- certain statements in the section headed “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical fact.

Investors should note that one or more of these risks or uncertainties may materialise, or one or more of the underlying assumptions may prove incorrect.

**There can be no guarantee as to the accuracy of facts and other statistics contained in this prospectus with respect to the economies and the industry in which we operate**

Certain facts and other statistics in this prospectus are derived from various sources including the Frost & Sullivan Report. Whilst our Directors and the Sole Sponsor have exercised reasonable care to ensure that such facts and statistics presented are accurately reproduced from their respective sources, the quality or reliability of such source materials cannot be guaranteed and have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of their respective directors, affiliates or advisers. Therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the official government statistics and unofficial statistics referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or statistics.

**You should read the entire prospectus and should not rely on any information contained in press coverage or other media regarding us and the Global Offering**

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. There has been prior to the date of this prospectus, and there may be, after the date of this prospectus, press and media coverage regarding us and the Global Offering, including related coverage in Oriental Daily News on 7 January 2011, which cited certain financial projections, valuations and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. We disclaim statements in the press or other media that are inconsistent or conflicts with the information contained in this prospectus. Accordingly, you should not rely on any such information.

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## WAIVERS FROM COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE

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### WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

#### Management Presence

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. At present, two non-executive Directors, one of our independent non-executive Directors and our Company Secretary are ordinarily resident in Hong Kong but none of our other six Directors, including all four executive Directors and the other two independent non-executive Directors, are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Au Wai Keung, our Company Secretary and who is ordinarily resident in Hong Kong, and Chen Qingwei, our executive Director. Each of the two authorised representatives has been duly authorised to communicate on behalf of us with the Stock Exchange and each of them will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail;
- (b) We will appoint a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our additional communication channel with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;
- (c) Both the authorised representatives have means to contact all members of the Board (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Board for any matters. We will implement a policy whereby (a) each Director (including the independent non-executive Directors) will provide his or her respective mobile phone number, office phone number, fax number and e-mail address to the authorised

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## **WAIVERS FROM COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE**

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representatives; (b) each Director (including the independent non-executive Directors) will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (c) each Director (including the independent non-executive Directors) will provide his or her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange; and

- (d) All Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

### **The latest financial period reported by the reporting accountants required under the Companies Ordinance and the Listing Rules**

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a statement as to the gross trading income or sales turnover for each of the three financial years preceding the issue of this prospectus. According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a report by Ernst & Young, our auditors and reporting accountants, with respect to, inter alia, our financial results for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, we are required to include in this prospectus an accountants' report covering our consolidated results in respect of each of the three financial years immediately preceding the issue of this prospectus.

The accountants' report for the three years ended 31 December 2009 and the nine months ended 30 September 2010 has been prepared and is set out in Appendix I to this prospectus. However, strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance and Rule 4.04(1) of the Listing Rules would create undue burden on us, as there would not be sufficient time for us and the reporting accountants to finalize the audited financial statements for the full financial year ended 31 December 2010 for inclusion in this prospectus.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31 December 2010 in this prospectus on the ground that it would be unduly burdensome for us to do so within a short period of time after 30 September 2010. A certificate of exemption has been granted by the SFC under section 342A of the Companies Ordinance on the conditions that (i) particulars of the exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before 18 January 2011.

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## **WAIVERS FROM COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES ORDINANCE**

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An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the accountants' report for the full year ended 31 December 2010 in this prospectus on the ground that it would be unduly burdensome for us to do so within a short period of time after 30 September 2010. A waiver has been granted by the Stock Exchange on the conditions that (i) the grant of a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Hong Kong Companies Ordinance by the SFC; and (ii) the Listing of the Shares on the Stock Exchange shall commence on or before 31 March 2011, which is prior to the expiry of three months after the latest financial year-end.

Our Directors confirm that they have performed sufficient due diligence on our Group to ensure that up to the date of issue of this prospectus, there has been no material adverse change in our Group's financial and trading position or prospects since 30 September 2010, and there is no material event since 30 September 2010 which would affect the information contained in the accountants' report set out in Appendix I to this prospectus. In addition, our Directors consider that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of our Group has been included in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### **FULLY UNDERWRITTEN**

The Global Offering comprises the International Placing and the Hong Kong Public Offer. Details of the structure and conditions of the Global Offering are set out in the section headed "Structure of the Global Offering" in this prospectus. This prospectus is published in connection with the Global Offering and, together with the related Application Forms, set out the terms and conditions of the Global Offering.

The Global Offering is sponsored by the Sole Sponsor, and the Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters and the International Placing is expected to be fully underwritten by the International Underwriters. Full information relating to the Underwriters and the underwriting arrangements, is set out in the section headed "Underwriting" in this prospectus.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Monday, 24 January 2011, or such later time as may be agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), and in any event, no later than Wednesday, 26 January 2011.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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**If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date, the Global Offering will not become unconditional and will lapse.**

### **RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription or acquisition solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Selling Shareholders, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Underwriters, any of their respective directors or any other parties involved in the Global Offering.

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants of the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants of the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. No part of the Share or the loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by the Stock Exchange.

### **HONG KONG REGISTER AND STAMP DUTY**

Our Company's principal register of members will be maintained by its principal registrar, Butterfield Fulcrum Group (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited. Dealings in the Shares registered on our Hong Kong Share Registrar will be subject to Hong Kong stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Prospective investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal, and dealing in our Shares (exercising rights attached to them). None of us, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **OVER-ALLOTMENT AND STABILISATION**

In connection with the Global Offering, the Stabilising Manager or its affiliates or any person acting for it, as stabilising manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct such stabilisation. Such stabilisation, if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the Global Offering, our Company has granted to the Sole Global Coordinator (on behalf of the International Underwriters) the Over-allotment Option, which will be exercisable in full or part at the sole discretion of the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Offer. Pursuant to the Over-allotment Option, our Company may be required to allot at the Offer Price up to an aggregate of additional 52,500,000 Shares, representing 15% of the initial Offer Shares, at the Offer Price to cover, among other thing, over-allocations in the International Placing, if any.

For further details with respect to stabilisation and the Over-allotment Option are set out in the sub-sections headed “Structure of the Global Offering — Stabilisation Action” and “Structure of the Global Offering — International Placing — Over-allotment Option” in this prospectus, respectively.

### **STOCK BORROWING ARRANGEMENT**

For the purpose of covering over-allocations in the International Placing, the Sole Lead Manager may borrow up to 52,500,000 Shares from Best Mark, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement in compliance with Rule 10.07(3) of the Listing Rules. Details of such stock borrowing arrangement are set out under the sub-section headed “Structure of the Global Offering — Stabilisation Action” in this prospectus.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

### **ROUNDING**

Any discrepancies in any table between totals and sums of amounts listed herein are due to rounding.



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. ZHENG Liuhe (鄭六和) (Chairman)	Room 601 Feng Sheng Jia Ri Zun Di Building Quan Xiu Road Quanzhou City Fujian Province PRC	Chinese
Mr. ZHANG Aiguo (張愛國)	No.7, Block 5 Ming Cui Garden Qian Yi Villa Feng Ze District Quanzhou City Fujian Province PRC	Chinese
Mr. CHEN Qingwei (陳慶偉)	Room 2B2 Building 2 Shi Ji Wang Chao 243 Jinxia Street Feng Ze District Quanzhou City Fujian Province PRC	Chinese
Mr. ZHENG Jingdong (鄭景東)	18th Floor Block C Jun Yi Building Feng Ze District Quanzhou City Fujian Province PRC	Chinese
<i>Non-executive Directors</i>		
Mr. SZE Ching Bor (史清波)	Flat C, 38th Floor Block 6, Sky Tower 38 Sung Wong Toi Road Kowloon Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Mr. CHEUNG Miu (張渺)	Flat D, 13th Floor Block 37 Laguna City Kwun Tong Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Professor BAI Changhong (白長虹)	Suite A5-602 Scholar Mansion Nankai University Tianjin City PRC	Chinese
Mr. LEE Keung (李強)	Flat A, 26th Floor Block 1 8 Sceneway Road Sceneway Garden Lam Tin Kowloon Hong Kong	Chinese
Ms. AN Na (安娜)	Room 18, Unit 2 Building No.49 Central Zone, 20 Fuxing Road Haidian District Beijing PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator, Sole  
Bookrunner and Sole Sponsor**

CMB International Capital Limited  
Units 1803-4, 18/F  
Bank of America Tower  
12 Harcourt Road  
Hong Kong

**Sole Lead Manager**

CMB International Securities Limited  
Units 1803-4, 18/F  
Bank of America Tower  
12 Harcourt Road  
Hong Kong

**Hong Kong Underwriters**

CMB International Securities Limited  
Units 1803-4, 18/F  
Bank of America Tower  
12 Harcourt Road  
Hong Kong

OSK Securities Hong Kong Limited  
12/F  
World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong

Daewoo Securities (Hong Kong) Limited  
Suites 2005-2012  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

Essence International Financial Holdings Limited  
39/F  
One Exchange Square  
Central  
Hong Kong

Haitong International Securities Company Limited  
25/F  
New World Tower  
16-18 Queen's Road  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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VC Brokerage Limited  
28/F  
The Centrium  
60 Wyndham Street  
Central  
Hong Kong

Wing Lung Securities Limited  
9/F  
45 Des Voeux Road  
Central  
Hong Kong

### **Legal advisers to our Company**

*as to Hong Kong law*  
Orrick, Herrington & Sutcliffe  
43rd Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*as to PRC law*  
Jingtian & Gongcheng  
34th Floor, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing 100025  
PRC

*as to Cayman Islands law*  
Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **Legal advisers to the Sole Sponsor and the Underwriters**

*as to Hong Kong law*  
Deacons  
5th Floor  
Alexandra House  
18 Chater Road  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*as to PRC law*

Commerce & Finance Law Offices  
6th Floor NCI Tower  
A12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022  
PRC

**Auditors and reporting accountants**

Ernst & Young  
18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Property valuer**

BMI Appraisals Limited  
Suite 11-18, 31st Floor  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

**Receiving bankers**

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Hong Kong

Wing Lung Bank Limited  
16th Floor  
Wing Lung Bank Building  
45 Des Voeux Road Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head office in the PRC</b>	Huoju Industrial Zone Jiangnan Town Licheng District Quanzhou City Fujian Province PRC
<b>Principal place of business in Hong Kong registered under Part XI of the Companies Ordinance</b>	25th Floor, Tern Center Tower I 237 Queen's Road Central Hong Kong
<b>Company's website</b>	<a href="http://www.chinabaofeng.com">www.chinabaofeng.com</a> (information contained in this website does not form part of the prospectus)
<b>Company secretary</b>	Au Wai Keung (HKICPA, ICAEW)
<b>Authorised representatives</b>	Chen Qingwei Room 2B2 Shi Ji Wang Chao 243 Jinxia Street Feng Ze District Quanzhou City Fujian Province PRC  Au Wai Keung Flat A 15/F Block 3 Sun Yuen Long Centre Yuen Long, New Territories Hong Kong
<b>Audit committee</b>	Lee Keung (Chairman) An Na Bai Changhong
<b>Nomination committee</b>	Bai Changhong (Chairman) Lee Keung An Na
<b>Remuneration committee</b>	An Na (Chairman) Lee Keung Bai Changhong
<b>Compliance adviser</b>	CMB International Capital Limited

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## CORPORATE INFORMATION

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**Principal bankers**

China Bank of Construction, Quanzhou branch  
3rd Floor, Bank of Construction Tower  
Fengze Street  
Quanzhou City  
Fujian Province  
PRC

China Bank of Construction, Zhanlancheng branch  
1st Floor, Mingfa Hotel  
Zhanlancheng  
Quanzhou City  
Fujian Province  
PRC

Bank of China, Licheng branch  
No. A2-3, Guangyi Garden  
Tian An Road  
Quanzhou City  
Fujian Province  
PRC

**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

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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from official government publications and industry sources as well as a report we commissioned from Frost & Sullivan, an Independent Third Party. The information extracted from the Frost & Sullivan Report reflects estimates of market conditions based on samples, and is prepared primarily as a marketing research tool. References to Frost & Sullivan should not be considered as Frost & Sullivan's opinion as to the value of any security or the advisability of investing in us.*

*Our Directors believe that the official government publications and sources of the information extracted from the Frost & Sullivan Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the official government publications and the Frost & Sullivan Report has not been independently verified by us, or any of our affiliates or advisers, nor by the Sole Sponsor, Underwriters or any of their respective directors, affiliates or advisers or any party involved in the Global Offering. Further, the information from official government publications may not be consistent with information available from other sources within or outside the PRC. We, our affiliates or advisers, the Sole Sponsor, Underwriters or their respective directors, affiliates or advisers, or any party involved in the Global Offering do not make any representation as to the accuracy, completeness or fairness of such information and, accordingly, you should not unduly rely on such information.*

## INTRODUCTION

We are a leading supplier of slippers (including own-branded 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. Our major source of revenue is derived from the sales of slippers which accounted for approximately 96.7%, 96.0%, 95.0% and 97.7% of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010. Most of our products are sold to customers in the PRC. According to the Frost & Sullivan Report, the PRC slipper market has been growing steadily in recent years and that the growth in the PRC slipper industry is partly driven by the growth in the PRC economy. In particular, the fashionable slipper market in the PRC is at an early phase of a growth stage. We believe that the PRC branded and fashionable slipper industry is benefiting from higher urbanisation, higher disposable income of urban households and rapid retail growth in the PRC. We plan to capture such anticipated growth in the PRC slipper market through our branded product business. Given the anticipated growth in the PRC slipper market, we expect that revenue from the sales of our branded slippers and in particular, our Boree brand slippers, will increase rapidly in the future as we continue to expand our branded product business. We also plan to retain our market position by maintaining sustainable growth in our OEM business.



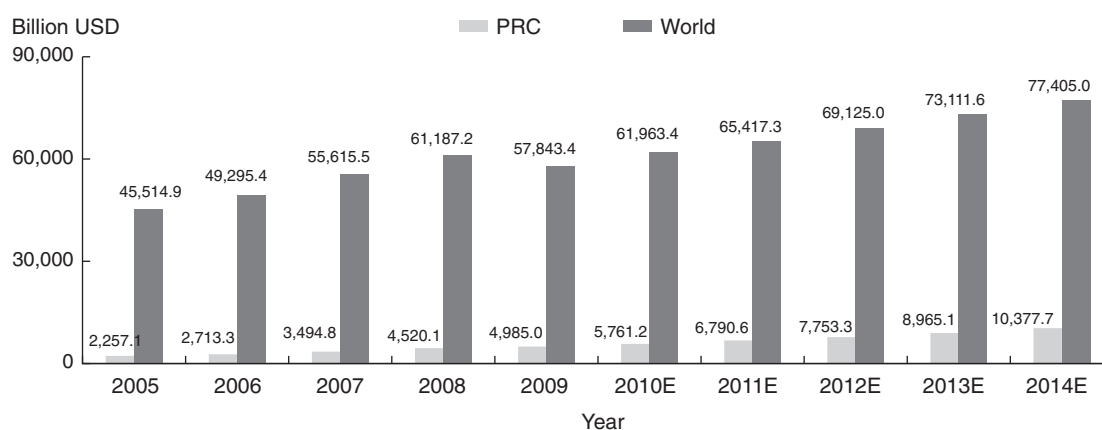
## INDUSTRY OVERVIEW

### RAPID GROWTH OF THE PRC ECONOMY, URBANISATION AND INCREASING DISPOSABLE INCOME

#### Rapid Growth of the PRC economy

The PRC economy has grown rapidly since the economic reform initiated by the PRC Government in the early 1980s. According to the Statistic Bulletin on National Economy and Societies Development in 2009, 2009 Statistics Bulletin on the First Revision of GDP of 2009 and 2010 Yearbook of China issued by 中華人民共和國國家統計局 (the National Bureau of Statistics of China\*) (the “**National Bureau of Statistics of China**”), the nominal GDP of the PRC has grown rapidly and steadily at a CAGR of approximately 21.9% from approximately US\$2,257.1 billion in 2005 to approximately US\$4,985.0 billion in 2009. In 2008, due to the global financial crisis, the growth of PRC economy in RMB experienced a moderate decline compared with a growth of 18.1% from 2007 compared to 22.9% from 2006 to 2007. The effects of the global financial crisis persisted in 2009, however, the nominal GDP in the PRC still increased by 29.3% in USD from 2007 to 2008 and 10.3% from 2008 to 2009 in USD. However the growth in the GDP and nominal GDP of the PRC should be considered together with fluctuation in the RMB against its major currencies over the same period. According to the International Monetary Fund, World Economic Outlook Database, October 2010, issued by the International Monetary Fund (the “**IMF**”)<sup>1</sup>, the nominal GDP of the PRC is projected to grow at a CAGR of approximately 15.9% from 2010 to 2014, attaining a nominal GDP of approximately US\$10,377.7 billion in 2014. From 2005 to 2009, the global GDP growth maintained moderate growth. The nominal global GDP growth grew at a CAGR of approximately 6.2% from 2005 to 2009 and is projected to grow at a CAGR of approximately 5.7% from 2010 to 2014. The chart below sets out the historical and projected nominal GDP in the PRC as compared to the global GDP for the periods indicated.

**Nominal GDP (the PRC vs. Global), 2005-2014E**



Source: Historical data of the PRC (2005-2009): National Bureau of Statistics of China; Projected data of the PRC (2010E-2014E): IMF  
 Historical data and projected data of the world: IMF

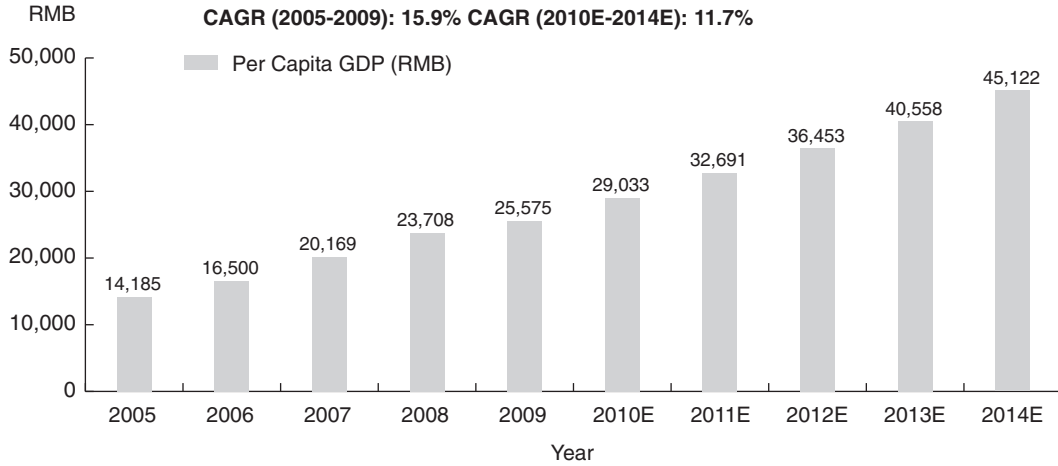
Note:

1. Based on USD values converted from RMB figures released by the National Bureau of Statistics of China

## INDUSTRY OVERVIEW

The chart below sets out the historical and projected per capita nominal GDP in the PRC for the periods indicated.

### Per Capita nominal GDP in the PRC, 2005 - 2014E

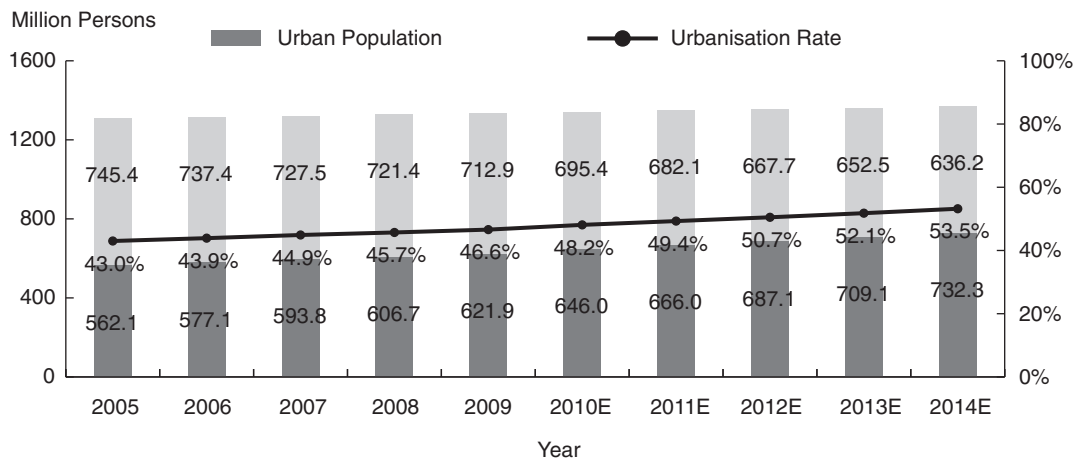


Source: Historical data (2005-2009): National Bureau of Statistics of China; Projected data (2010E-2014E): IMF

### Accelerating urbanisation trend

Due to the rapid economic development of the PRC and the influx of migrants from rural areas to developed areas, the PRC's urban population has been increasing steadily. According to the National Bureau of Statistics of China, the total urban population in the PRC increased by approximately 10.6% from approximately 562.1 million in 2005 to approximately 621.9 million in 2009. In 2009, the total urban population accounted for approximately 46.6% of the total population. According to the Frost & Sullivan Report, the urban population is projected to grow at a CAGR of approximately 3.2% from 2010 to 2014, attaining approximately 732.3 million by 2014. The chart below sets out the historical and projected urban population and urbanisation rate for the periods indicated.

### Urban Population and Urbanisation (the PRC), 2005-2014E



Source: Historical data (2005-2009): National Bureau of Statistics of China; Projected data (2010E-2014E): Frost & Sullivan Report

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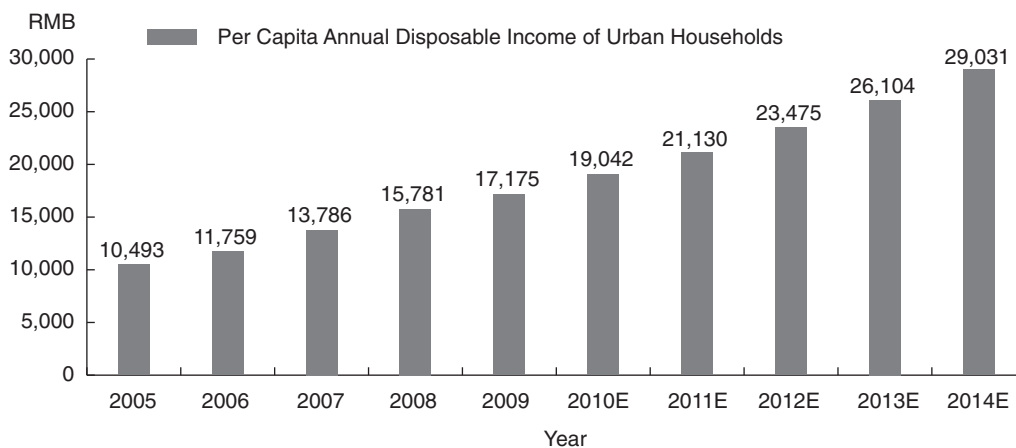
## INDUSTRY OVERVIEW

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### Growth in per capita annual disposable income of urban households

With the development of logistics, communications and public services in the PRC's urban cities, more investment opportunities have arisen in the urban cities, which have boosted the growth of industry and commerce in the cities. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households in the PRC has increased at a CAGR of approximately 13.1% from approximately RMB10,493 in 2005 to approximately RMB17,175 in 2009. Although the percentage growth of the per capita annual disposable income of urban households in the PRC experienced a decline in 2008 which continued in 2009 due to the financial crisis, the per capita annual disposable income of urban households in the PRC still sustained an increase of approximately 14.5% and 8.8% in 2008 and 2009, respectively. According to the Frost & Sullivan Report, the per capita annual disposable income of urban households in the PRC is projected to grow at a CAGR of approximately 11.1% from 2010 to 2014, attaining RMB29,031 in 2014. The chart below sets out the per capita annual disposable income of urban households in the PRC for the periods indicated.

### Per capita annual disposable income of urban households in the PRC, 2005-2014E



Source: Historical data (2005-2009): National Bureau of Statistics of China; Projected data (2010E-2014E): Frost & Sullivan Report

### RAPID GROWTH IN RETAIL SALES AND CHANGING CONSUMPTION PATTERNS

From 2005 to 2009, retail sales of PRC consumer goods experienced rapid growth as a result of the PRC's rapidly growing economy, accelerating urbanisation and increasing per capita annual disposable income of urban households. According to the National Bureau of Statistics of China, the total value of retail sales of PRC consumer goods grew at a CAGR of approximately 18.0% from approximately RMB6,835.3 billion in 2005 to approximately RMB13,267.8 billion in 2009. According to the Frost & Sullivan Report, the total value of retail sales of PRC consumer goods is projected to grow at a CAGR of approximately 13.4% from

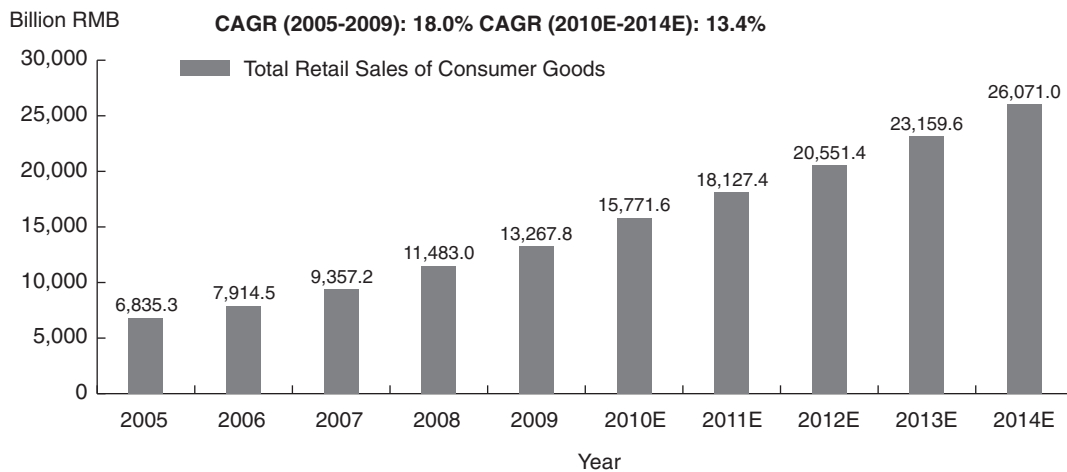
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## INDUSTRY OVERVIEW

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2010 to 2014, attaining RMB26,071.0 billion in 2014. The expectation of a constantly growing retail sales market is likely to lead to an increase in the sales revenue of slippers in the PRC in the forecast period. The chart below sets out the historical and projected total value of retail sales of PRC consumer goods for the periods indicated.

### Total value of retail sales of consumer goods in the PRC, 2005-2014E



Source: Historical data (2005-2009): National Bureau of Statistics of China; Projected data (2010E-2014E): Frost & Sullivan Report

### Key drivers of sustainable growth in the PRC retail market

With the growth in per capita annual disposable income of urban households in recent years, PRC consumers have become more affluent and their purchasing decisions have become less driven by price but increasingly by quality, trends, brand image, product design and style. In addition, the generation Y that is emerging in the PRC, i.e. those born between 1980 and 1990, are expected to be a large driver of consumption amongst the population. This generation grew up amidst rising consumerism and entrepreneurship in the PRC. Their higher education and stronger earning power coupled with the influx of Western culture and mentality have slowly created a different perception of the concept of borrowing for consumption. These changes in the consumption patterns in the PRC is likely to lead to an increase in the demand for consumer goods.

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## INDUSTRY OVERVIEW

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### PRICES OF CRUDE OIL AND PLASTIC

The principal type of raw material used in the production of slippers is plastic, the prices of which are dependent to a large extent on the prevailing prices of crude oil.

The following chart sets out the historical crude oil prices in the world for the period from January 2007 to December 2010.



*Source: U.S. Energy Information Administration*

From 2007 to June 2008, crude oil prices saw an upward trend. Crude oil prices began to drop from mid 2008 to early 2009 due to the financial crisis, dropping dramatically to approximately US\$40.0 or lower per barrel in early 2009. As a result, the Organization of Petroleum Exporting Countries (OPEC) adopted further measures to stabilise oil prices by controlling crude oil production. Crude oil prices then saw an upward trend until mid 2009. From mid 2009 to late 2010, crude oil prices hovered between approximately US\$60 and US\$90 per barrel. According to the International Energy Agency, crude oil prices may rise from approximately US\$70 per barrel in 2010 to approximately US\$95 in 2015.

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## INDUSTRY OVERVIEW

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The following chart sets out the historical trends in 中塑指數 (Plastic Index in the PRC\*) (“Plastic Index”) for the period from January 2007 to December 2010.



Source: 中塑資訊網 (Information web on plastic in the PRC\*) ([www.l-zzz.com](http://www.l-zzz.com))

Note: According to the aforementioned source, the Plastic Index is a price index compiled by reference to a sample comprising the top five types of the most commonly used plastic both internationally and domestically, namely, polyethylene, polypropylene, polyvinyl chloride, polystyrene and acrylonitrile butadiene styrene, in their most commonly used forms and is representative of the price of plastic and trends exhibited thereof in the PRC market.

As shown by a comparison of the two charts above, the Plastic Index exhibits a strong positive correlation with the prices in crude oil over the same period. From late first quarter to mid 2008, the Plastic Index saw an upward trend. From mid 2008 to late 2008, the Plastic Index dropped significantly. From late 2008 to mid 2009, the Plastic Index saw an upward trend. From mid 2009 to late 2010, the Plastic Index remained relatively stable.

As plastic (including plastic-related materials) is the principal type of raw material used in our production, the cost of our raw materials may be affected by, among other factors, price trends and changes in market conditions of crude oil which may be highly volatile and cyclical. Please see the sub-section headed “Risk Factors — Our business operations are subject to fluctuations in the price of certain raw materials including plastic” in this prospectus for further details.

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## INDUSTRY OVERVIEW

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### THE PRC SLIPPER MARKET

#### Overview

In 2009, approximately 2,100 million pairs of slippers were produced in the PRC, of which approximately 60.0% was exported. The PRC slipper market is also highly fragmented with the top ten slipper suppliers only accounting for approximately 7.9% of the total slipper production volume in the PRC in 2009. In 2009 fashionable slippers and traditional slippers accounted for approximately 20.0% and 80.0% of the total production volume of slippers in the PRC, respectively.

The Frost & Sullivan Report defines slippers as partially-covered footwear generally with straps or thongs assembled to the sole, which are usually made of rubber, plastic, EVA or a combination of such materials. According to the Frost & Sullivan Report, slippers can generally be divided into the following two broad categories:

<u>Type of slippers</u>	<u>Definition</u>
Fashionable slippers	Slippers featured by fashionable designs and diversified colours and are usually worn outdoors or in public occasions. Such slippers generally have higher selling prices as compared to traditional slippers. The shoe soles of fashionable slippers are usually made of EVA, rubber or a combination of these materials.
Traditional slippers	Slippers that are usually worn indoors or at home. The shoe soles of traditional slippers are usually made of rubber, plastic or a combination of these materials. Some traditional slippers may also be made of EVA.

Slipper suppliers in the PRC utilise both direct and indirect channels to sell their products. Direct channels include selling products through regional branches or flagship stores of the supplier and indirect sales channels include selling products mainly through distributors or agents. Total revenue including both domestic and export sales revenue of a company was used for ranking purpose in the Frost & Sullivan Report and in this prospectus.

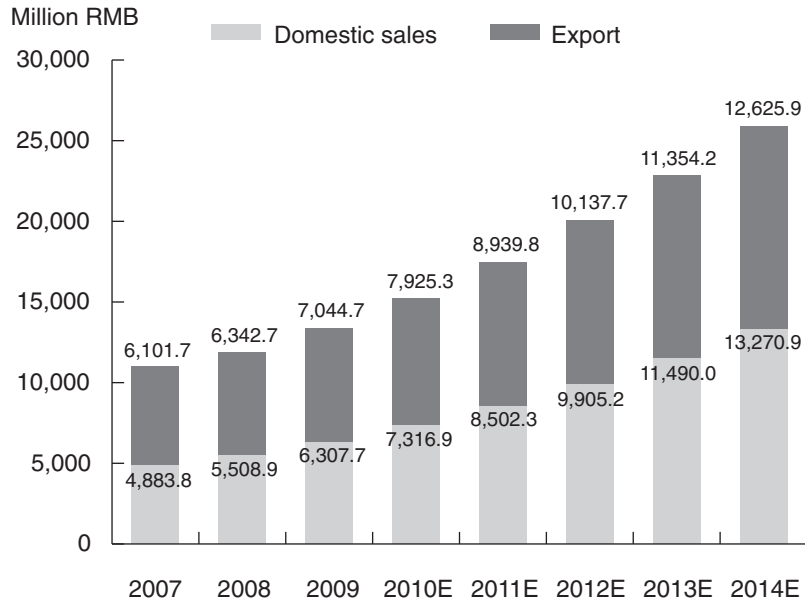
According to the Frost & Sullivan Report, the total sales revenue of slippers in the PRC grew steadily at a CAGR of approximately 10.2% from approximately RMB10,985.5 million in 2007 to approximately RMB13,352.4 million in 2009. In light of the rapid increase in domestic sales revenue of slippers in recent years, it is anticipated that domestic sales revenue of slippers will constitute approximately 51.2% of the total sales revenue of slippers in the PRC by 2014. The chart below sets out the historical and projected sales revenue of slippers in the PRC, and a breakdown by export and domestic sales revenue for the periods indicated.

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## INDUSTRY OVERVIEW

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### Total sales revenue of slippers in the PRC, 2007-2014E Breakdown by export and domestic sales



Source: Frost & Sullivan Report

#### Key industry growth drivers

A key driver of the PRC slipper market in the next five years is the fast growth in the per capita annual disposable income of PRC consumers. Such growth has led to an increase in the purchasing power of PRC consumers. This is likely to promote the growth of the PRC slipper market in the next five years.

Another key industry growth driver is the experience in manufacturing and marketing accumulated by local slipper suppliers. In addition, local slipper suppliers have started to establish their own brands. The development of local brands is expected to increase the size of the PRC slipper market and lead to an increase in competition in the PRC slipper market in the next few years.

#### Key market restraints

The PRC slipper industry is a labour-intensive industry. With the development of the PRC economy, manufacturing costs of slippers in coastal regions have increased rapidly in recent years. Local PRC slipper suppliers now face an increasing competition from slipper suppliers in low labour-cost countries, which may reduce their profitability.



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## INDUSTRY OVERVIEW

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### Market segmentation

#### Revenue

In 2009, the total sales revenue of slippers in the PRC was approximately RMB13,352.4 million. Our Company held approximately 4.2% of the total sales revenue of slippers in the PRC, whereas the next competitor only held approximately 1.8% of the total sales revenue of slippers in the PRC. In 2009, total sales revenue of slippers of the top ten slipper suppliers accounted for approximately RMB1,782.7 million or approximately 13.4% of the total sales revenue of slippers in the PRC. Among these top ten suppliers, our Company had the highest revenue in 2009 of approximately RMB558.9 million or 31.4% of the total sales revenue of slippers of the top ten slipper suppliers in the PRC.

The table below illustrates the market share of each of the top ten slipper suppliers in terms of sales revenue of slippers in the PRC in 2009.

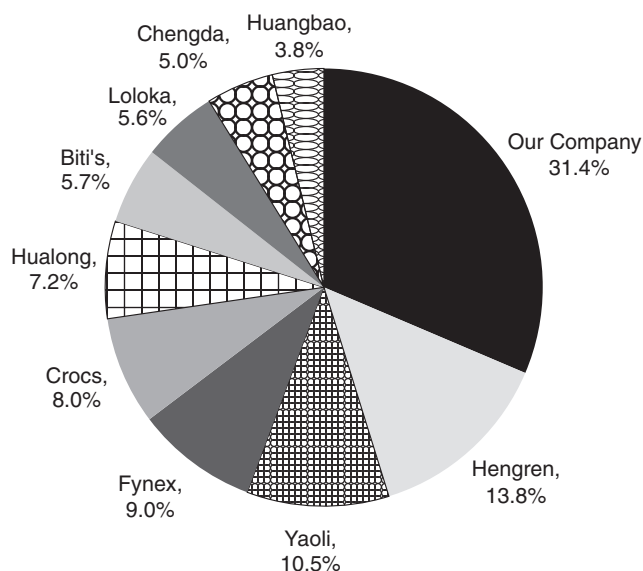
#### Market share of the top ten suppliers in terms of sales revenue of slippers in the PRC, 2009

Ranking	Company	Revenue in 2009 (Million RMB)	Market Share (%)
1	Our Company	558.9	4.2
2	Jinjiang Hengren Shoes Co., Ltd. (“ <b>Hengren</b> ”)	246.0	1.8
3	Yaoli (China) Industrial Co., Ltd. (“ <b>Yaoli</b> ”)	187.5	1.4
4	Fengzhu Shoes Developing Co., Ltd. (“ <b>Fynex</b> ”)	160.0	1.2
5	Crocs, Inc. (“ <b>Crocs</b> ”)	141.9	1.1
6	Jinjiang Hualong Shoes Co., Ltd. (“ <b>Hualong</b> ”)	128.0	1.0
7	Binh Tien Imex Corp., Pte., Ltd. (Biti’s Footwear) (“ <b>Biti’s</b> ”)	102.4	0.8
8	Shijiazhuang Loloka Shoes Co., Ltd. (“ <b>Loloka</b> ”)	100.0	0.7
9	Fujian Quanzhou Chengda & Shoes Co., Ltd. (“ <b>Chengda</b> ”)	90.0	0.7
10	Huangbao Shoes Co., Ltd. (“ <b>Huangbao</b> ”)	68.0	0.5
Sub-total for top ten slipper suppliers		1,782.7	13.4
Others		11,569.7	86.6
Total		<u>13,352.4</u>	<u>100.0</u>

Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

The chart below illustrates the breakdown in revenue of each of the top ten slipper suppliers in the PRC in terms of sales revenue of slippers as a percentage of the total sales revenue of slippers of the top ten slipper suppliers in the PRC in 2009.



Source: Frost & Sullivan Report

Our Company had the highest revenue for the six months ended 30 June 2010 of approximately RMB448.0 million or approximately 38.0% of the total sales revenue of slippers of the top ten slipper suppliers in the PRC. The table below illustrates the market share of each of the top ten slipper suppliers in terms of sales revenue of slippers in the PRC for the six months ended 30 June 2010.

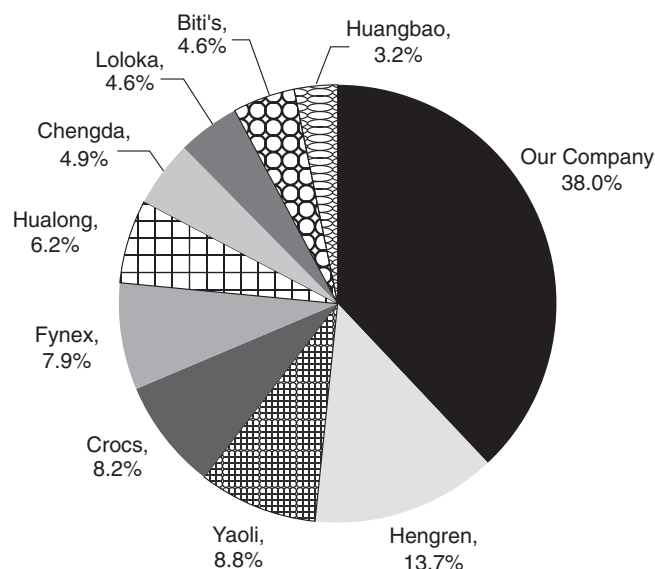
### Market share of the top ten suppliers in terms of sales revenue of slippers in the PRC, six months ended 30 June 2010

Ranking	Company	Revenue for the six months ended 30 June 2010 (Million RMB)	Market Share (%)
1	Our Company	448.0	6.1
2	Hengren	161.1	2.2
3	Yaoli	103.1	1.4
4	Crocs	96.5	1.3
5	Fynex	93.0	1.3
6	Hualong	73.6	1.0
7	Chengda	57.5	0.8
8	Loloka	54.5	0.7
9	Biti's	53.8	0.8
10	Huangbao	37.4	0.5
Sub-total for top ten slipper suppliers		1,178.5	16.1
Others		6,137.8	83.9
Total		<u>7,316.3</u>	<u>100.0</u>

Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

The chart below illustrates the breakdown in sales revenue of each of the top ten slipper suppliers in the PRC in terms of sales revenue of slippers as a percentage of the total sales revenue of slippers of the top ten slipper suppliers in the PRC for the six months ended 30 June 2010.



Source: Frost & Sullivan Report

Our Company ranked fifth in terms of domestic sales revenue of own-branded slippers in the PRC in 2009. The table below illustrates the market share of each of the top ten slipper suppliers by domestic sales revenue of own-branded slippers in the PRC in 2009.

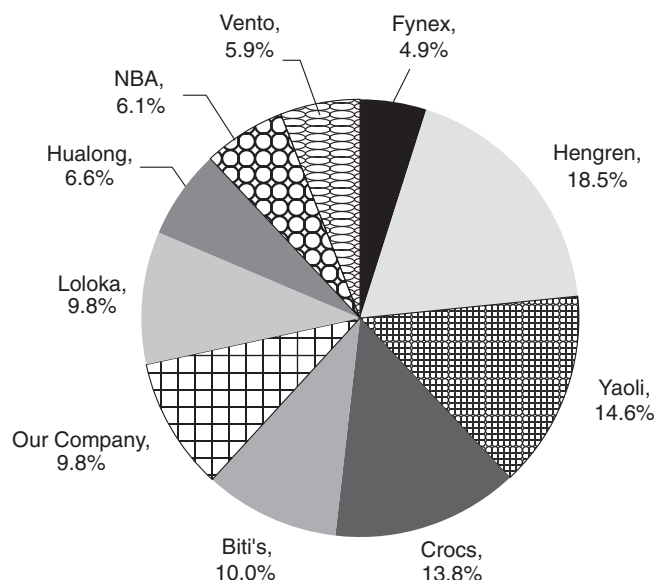
### Market share of the top ten suppliers in terms of domestic sales revenue of own-branded slippers in the PRC, 2009

Ranking	Company	Revenue in 2009 (Million RMB)	Market Share (%)
1	Hengren	190.0	3.0
2	Yaoli	150.0	2.4
3	Crocs	141.9	2.1
4	Biti's	102.5	1.6
5	Our Company	100.0	1.6
6	Loloka	100.0	1.6
7	Hualong	68.0	1.1
8	2010 NBA Media Ventures, LLC. ("NBA")	62.0	1.0
9	Nhat Viet Company Ltd. (Vento Footwear) ("Vento")	60.0	1.0
10	Fynex	50.0	0.8
Sub-total for top ten slipper suppliers		1,024.4	16.2
Others		5,283.3	83.8
Total		6,307.7	100.0

Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

The chart below illustrates the breakdown in revenue of each of the top ten slipper suppliers in the PRC in terms of domestic sales revenue of own-branded slippers as a percentage of the total sales revenue of own-branded slippers of the top ten slipper suppliers in the PRC in 2009.



Source: Frost & Sullivan Report

Our Company ranked first in terms of domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010. The table below illustrates the market share of each of the top ten slipper suppliers by domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010.

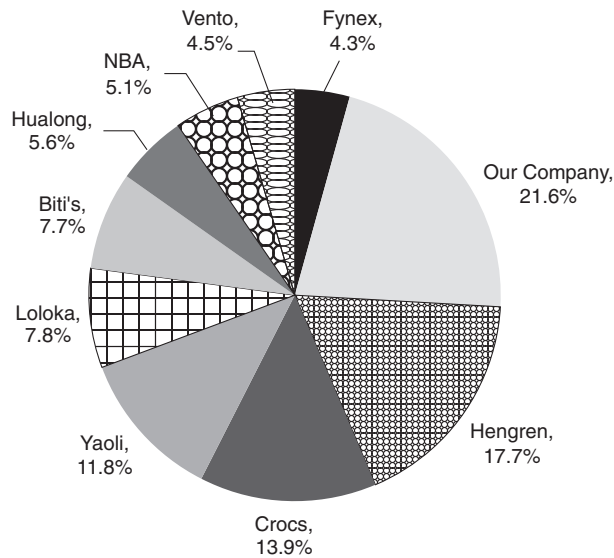
### Market share of the top ten suppliers in terms of domestic sales revenue of own-branded slippers in the PRC, six months ended 30 June 2010

Ranking	Company	Revenue in the six months ended 30 June 2010 (Million RMB)	Market Share (%)
1	Our Company	150.3	4.3
2	Hengren	123.5	3.5
3	Crocs	96.5	2.7
4	Yaoli	82.5	2.4
5	Loloka	54.5	1.6
6	Biti's	53.8	1.5
7	Hualong	39.1	1.1
8	NBA	35.7	1.0
9	Vento	31.5	0.9
10	Fynex	30.0	0.9
Sub-total for top ten slipper suppliers		697.4	19.9
Others		2,814.7	80.1
Total		<u>3,512.1</u>	<u>100.0</u>

Source: Frost & Sullivan Report

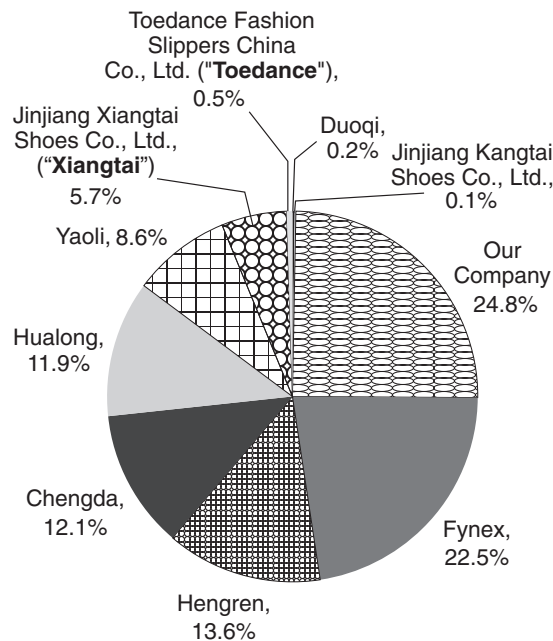
## INDUSTRY OVERVIEW

The chart below illustrates the breakdown in revenue of each of the top ten slipper suppliers in the PRC in terms of domestic sales revenue of own-branded slippers as a percentage of the total sales revenue of own-branded slippers of the top ten slipper suppliers in the PRC for the six months ended 30 June 2010.



Source: Frost & Sullivan Report

In 2009, our export sales volume was approximately 14.3 million pairs of slippers. Our Company ranked first in terms of the export sales volume of slippers of the top ten slipper suppliers in the PRC in 2009. The chart below illustrates the breakdown in export sales volume of slippers of the top ten slipper suppliers in the PRC as a percentage of the total export sales volume of slippers of the top ten slipper suppliers in the PRC in 2009.



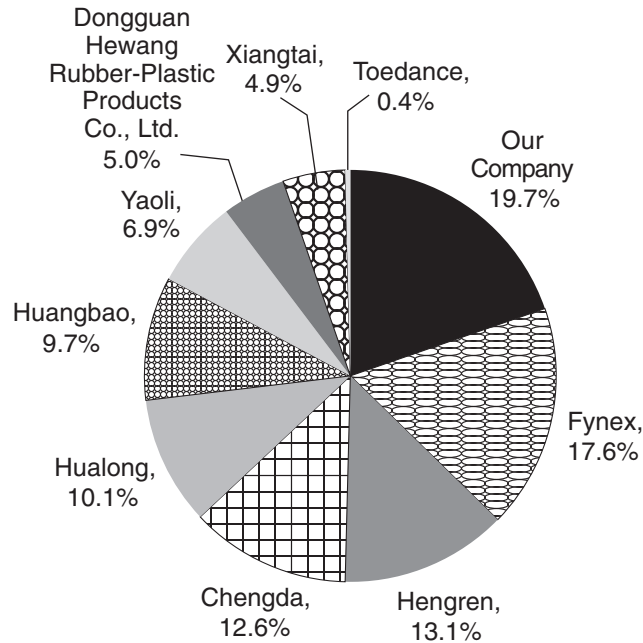
Source: Frost & Sullivan Report

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## INDUSTRY OVERVIEW

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For the six months ended 30 June 2010, our export sales volume was approximately 7.8 million pairs of slippers. Our Company ranked first in terms of the export sales volume of slippers of the top ten slipper suppliers in the PRC for the six months ended 30 June 2010. The chart below illustrates the breakdown in export sales volume of slippers of the top ten slipper suppliers in the PRC as a percentage of the total export sales volume of slippers of the top ten slipper suppliers in the PRC in the six months ended 30 June 2010.



Source: Frost & Sullivan Report

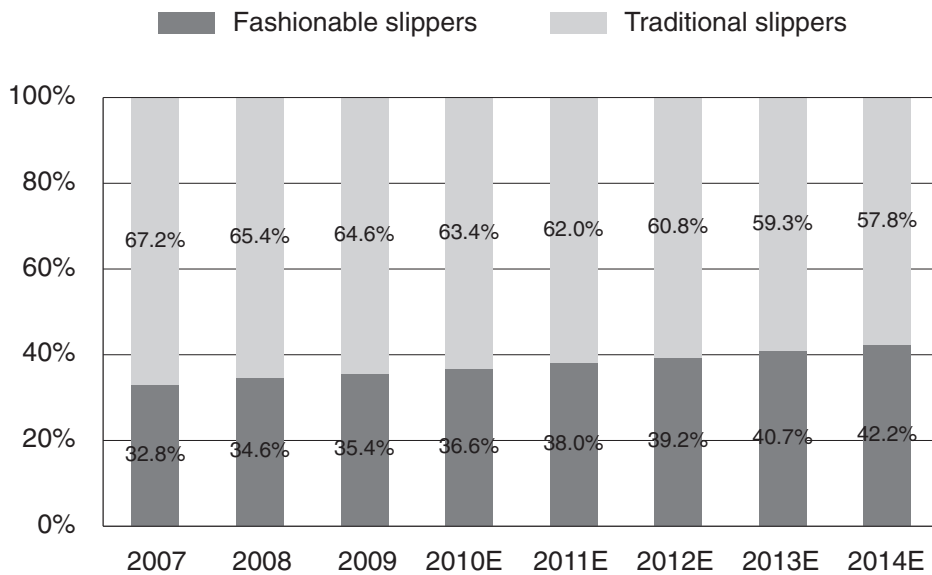
### THE PRC FASHIONABLE SLIPPER MARKET

#### Overview

According to the Frost & Sullivan Report, the increase in the per capita annual disposable income of the urban households in the PRC and their increasing attention to trends, product designs and styles has led to a steady growth in domestic sales revenue of fashionable slippers. As fashionable slippers are typically priced higher than traditional slippers, the sales revenue of fashionable slippers as a proportion of total sales revenue of all slippers is generally higher than the sales volume of fashionable slippers as a proportion of total sales volume of all slippers. In 2009, the proportion of sales revenue of fashionable slippers was approximately 35.4% of the total sales revenue of slippers in the PRC although the sales volume of fashionable slippers was only approximately 20.0% of the total sales volume of slippers in the PRC. The proportion of sales revenue of fashionable slippers in the PRC is expected to increase by approximately 6.8% from 2009 to 2014 reaching approximately 42.2% of the total sales revenue of slippers in the PRC by 2014. According to the Frost & Sullivan Report, the chart below sets out the historical and projected sales revenue of slippers in the PRC and a breakdown of sales revenue by fashionable and traditional slippers for the periods indicated.

## INDUSTRY OVERVIEW

### Total sales revenue of slippers in the PRC, 2007-2014E Breakdown by fashionable and traditional slippers



Source: Frost & Sullivan Report

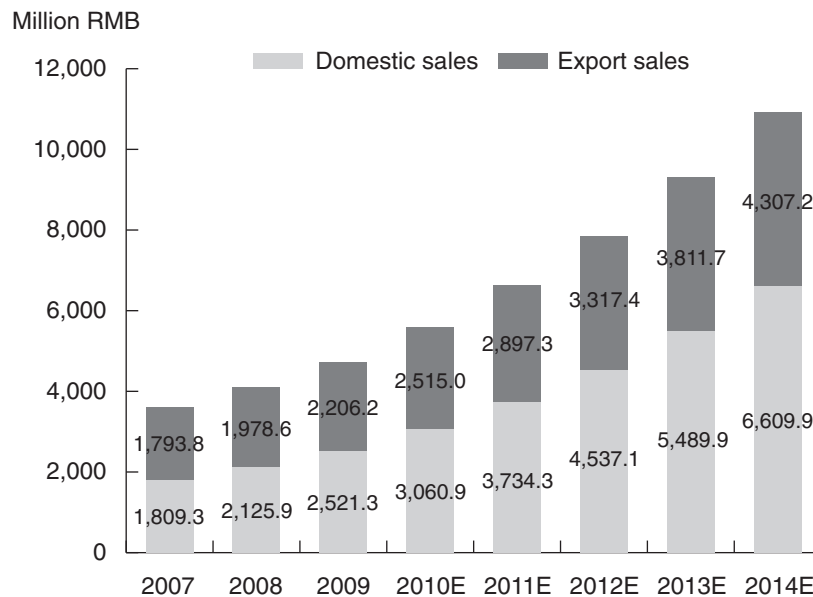
According to the Frost & Sullivan Report, the sales revenue of fashionable slippers in the PRC grew at a CAGR of approximately 14.5% from approximately RMB3,603.1 million in 2007 to approximately RMB4,727.5 million in 2009. With the increasing purchasing power of PRC consumers, domestic sales revenue of fashionable slippers grew at a CAGR of approximately 18.0% from 2007 to 2009. By comparison, export revenue of fashionable slippers only grew at a CAGR of approximately 10.9% from 2007 to 2009. The growth rate of sales revenue of fashionable slippers in the PRC is expected to remain high at a CAGR of approximately 18.2% from 2009 to 2014, with the CAGR for domestic sales revenue and export sales revenue of fashionable slippers expected to be approximately 21.3% and 14.3%, respectively, over the same period. The proportion of domestic sales revenue of fashionable slippers is expected to rise from approximately 53.3% of the total sales revenue of fashionable slippers in the PRC in 2009 to approximately 60.5% of the total sales revenue of fashionable slippers in the PRC in 2014. The chart below sets out the historical and projected sales revenue of slippers in the PRC and a breakdown by export and domestic sales revenue for the periods indicated.

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## INDUSTRY OVERVIEW

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### Total sales revenue of slippers in the PRC, 2007-2014E Breakdown by export and domestic sales of fashionable slippers



Source: Frost & Sullivan Report

#### Key market drivers

A key driver of the PRC fashionable slipper market in the next five years is the change in the lifestyle of PRC consumers, who are becoming increasingly focused on fashion trends. Such change has been prompted by the growth of the PRC economy. According to the Frost & Sullivan Report, although consumer awareness of fashionable slippers in the PRC is low at present, it is on a rising trend. As such, it is expected that fashionable slippers will be increasingly accepted by consumers in the PRC. This is expected to boost the growth of the PRC fashionable slipper market in the next few years.

Another key industry growth driver is the higher profit margins of fashionable slippers as compared to traditional slippers since consumers are willing to pay more for product design and style. The higher profit margins of fashionable slippers is expected to attract more slipper manufacturers to enter the PRC fashionable slipper market.

Further, the emergence of new distribution channels such as boutiques and e-marketing are also likely to increase the turnover, and thereby increase the profitability of the PRC fashionable slipper market. This factor is expected to have an increasing impact on the development of the PRC fashionable slipper market over the next five years.



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## INDUSTRY OVERVIEW

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### **Key market restraints**

The popularity of certain brands of fashionable slippers, high profit margins, improper practice of local slipper suppliers and inadequate industry standards and regulations in the PRC slipper market have led to an infiltration of inferior quality counterfeit fashionable slippers into the PRC. Such inferior quality counterfeit fashionable slippers may damage the reputation of fashionable slipper brands in the PRC. However, with the intervention of the government, this is expected to have reduced impact on the PRC fashionable slipper market in the next one to five years.

Further, at present, consumer awareness of fashionable slippers is low in the PRC, which may restrict the growth of the market. However with improvement in the living standards in the PRC, it is expected that this factor will have a reduced impact on the industry in the next five years.

### **Barriers to entry**

The major barriers to entry for new entrants to the PRC fashionable slipper market include the following:

#### *Research and development*

Suppliers of fashionable slippers need to keep pace with the fashion trends and be innovative, otherwise they will not be able to capture a sizeable portion of the market. Further, to create innovative slipper designs or utility models of slippers, materials such as EVA are used in the production of fashionable slippers. The testing and modeling of these materials requires time and may divert resources away from core production work.

#### *Sales channels*

Specific sales channels are required to enable fashionable slipper suppliers to reach their target customers. Boutiques and e-businesses have recently emerged as new sales channels. Slipper suppliers may also be able to use these sales channels to build their corporate images. Both channels, however, require time and capital to establish.

#### *Brand building*

It is critical for suppliers of fashionable slippers to establish a reputable brand image to support its long-term growth. Brand building involves the design of a brand, establishment of a brand reputation and brand maintenance. As such, new entrants need to invest in marketing and advertising which requires time and may divert resources away from core production work.

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## INDUSTRY OVERVIEW

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### SOURCES OF INFORMATION

#### Report commissioned from Frost & Sullivan

We commissioned Frost & Sullivan, an independent global consulting company based in the United States with nearly 50 years of industry experience, to conduct an analysis of, and to report on, the slipper market in the PRC for the period from 2007 to 2014. The report commissioned has been prepared by Frost & Sullivan independently. We paid RMB400,000 to Frost & Sullivan for the report commissioned and we consider that such fee reflects market rates.

The Frost & Sullivan Report we commissioned includes information on the PRC slippers market such as market share and ranking of slipper manufacturers, revenue and other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC slipper industry. Primary research involves interviewing leading industry participants and secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers. Revenue, production volume and sales volume set out in the Frost & Sullivan Report are based on unaudited management records of our Group.

The forecasts in the Frost & Sullivan Report are based on the following general bases and assumptions:

- the social, economic and political environment in the PRC is assumed to remain stable in the forecast period, allowing a stable development of the PRC slipper industry;
- the economy of the PRC is assumed to maintain a steady growth in the next decade, even though the financial crisis is not over yet;
- the total value of retail sales of consumer goods in the PRC is assumed to increase steadily over the forecast period, based on the increasing per capita annual disposable income of urban households in the PRC;
- the purchasing decisions of PRC consumers are assumed to be increasingly driven by trends, brand image, product design and style over the forecast period;

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## INDUSTRY OVERVIEW

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- the PRC's generation Y, those born between 1980 and 1990, are assumed to be a large driver of consumption amongst the population over the forecast period; and
- the exchange rates used in the Frost & Sullivan Report are set out below:

<u>Year</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>
Exchange Rate										
RMB: US\$										
(average)	8.1936	7.9723	7.6058	6.9477	6.8307	6.76	6.69	6.37	6.16	5.95

No other information disclosed in this prospectus is extracted from reports commissioned by us or the Sole Sponsor.

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## REGULATIONS

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This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group's operation and business.

### **Establishment, operation and management of a wholly foreign-owned enterprise**

The establishment, operation and management of corporate entities in the PRC are governed by the 中華人民共和國公司法 (Company Law of the PRC\*) (the “**PRC Company Law**”), which was adopted by the 全國人民代表大會常務委員會 (Standing Committee of the National People's Congress\*) on 29 December 1993 and became effective on 1 July 1994. It was last amended on 27 October 2005 and became effective, as amended, on 1 January 2006. Under the PRC Company Law, companies are generally classified into two categories — limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment of a branch company is subject to the 中華人民共和國公司登記管理條例 (Regulations of the People's Republic of China on the Administration of Company Registration\*), (the “**Regulations on Company Registration**”), which were revised on 18 December 2005 and became effective, as amended, on 1 January 2006. According to the Regulations on Company Registration, a “branch company” refers to an institution established by a company to engage in business operations in places outside of the company's domicile. A branch company does not have the qualifications of an enterprise legal entity. The business scope of a branch company shall not exceed that of the company.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the 中華人民共和國外資企業法 (Wholly Foreign-owned Enterprise Law of the PRC\*) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the 中華人民共和國外資企業法實施細則 (Implementation Rules to the wholly Foreign-owned Enterprise Law of the PRC\*), which were promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by the 外商投資產業指導目錄 (Guidance Catalogue of Industries for Foreign Investment\*) (the “**Catalogue**”), which was amended and promulgated by the 中華人民共和國商務部 (Ministry of Commerce of the PRC and the National Development and Reform Commission of the PRC on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions guiding market access of foreign capital, stipulating in detail the rules of entry according to the categories of encouraged industries, restricted industries and prohibited industries. Industries which are not listed in the Catalogue are generally open to foreign investment unless specifically barred by other PRC regulations. Wholly foreign-owned enterprises are often permitted to be established in encouraged industries. However, some encouraged industries and restricted industries are limited to

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Sino-foreign equity or contractual joint ventures, with a Chinese investor as the majority shareholder required in some cases. Restricted industry projects are also subject to higher-level government approvals. Prohibited industries are closed to foreign investment.

### Importation and Exportation of goods

Pursuant to the 中華人民共和國對外貿易法 (Foreign Trade Law of the PRC\*) (the “**Foreign Trade Law**”), which was promulgated on 6 April 2004 and became effective on 1 July 2004, foreign trade dealers who are engaged in the import or export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorised bodies unless such registration is not required under the laws and regulations of the State Council and/or by the authority responsible for foreign trade under the State Council. Where a foreign trade dealer fails to register as required, the Customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

According to the 商務部關於外商投資企業外貿權備案登記有關問題的通知 (Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-funded Enterprises\*), which was promulgated and became effective on 17 August 2004, when foreign-funded enterprises which were duly established before 1 July 2004 apply for the addition of any import/export business to its approved scope of business, they must, in accordance with the 對外貿易經營者備案登記辦法 (Measures for the Record-keeping and Registration by Foreign Trade Dealers\*), complete the formalities of business addition to the enterprises’ business licences and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration (*note*: no formalities of change are required with regard to the approval certificate for its establishment) on the strength of the approval certificate for its establishment, business licence with the business addition made, and any other document as required under the Measures for the Record-keeping and Registration by Foreign Trade Dealers. The registration authorities shall affix a stamp indicating “business of distribution of import goods excluded” on the registration form.

Pursuant to the 中華人民共和國海關對報關單位註冊登記管理規定 (Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities\*), which were promulgated on 31 March 2005 and became effective on 1 June 2005, “consignor or consignee of export or import goods” means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After going through the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of 3 years.

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### Investment in Commercial Fields

According to the 外商投資商業領域管理辦法 (Measures for the Administration on Foreign Investment in Commercial Fields\*) (the “**Measures**”), which were promulgated on 16 April 2004 and became effective on 1 June 2004, foreign-invested enterprises, other than foreign-invested commercial enterprises, which are engaged in business activities such as the activities of a commission agency, or wholesale, retail or franchising activities must comply with the Measures and alter its business scope according to the requirements set out therein.

The 商務部關於外商投資非商業企業增加分銷經營範圍有關問題的通知 (Circular of the Ministry of Commerce on Issues Relevant to Expanding the Business Scope of Foreign Invested Non-commercial Enterprise To Include The Distribution Activities\*) (the “**Circular**”), which was promulgated and became effective on 2 April 2005, further provides that where a foreign invested non-commercial enterprise expands its business scope to include certain distribution activities, in addition to revising the Sino-foreign joint-venture contract (if applicable) and articles of association, it shall complete and submit the relevant application forms in accordance with the relevant legal procedures in respect of expanding the business scope of an enterprise, and renew its certificate of approval for foreign invested enterprise. Furthermore, such foreign invested non-commercial enterprise shall also specify the type of distribution activity (i.e. wholesale or retail activities and /or the activities of a commission agency), and submit a list of products to be distributed along with the aforesaid application.

Also, pursuant to the Circular, where a foreign invested non-commercial enterprise expands its business scope to include the distribution activities and meanwhile opens retail stores, an examination shall be conducted in accordance with the relevant provisions of the Measures. As provided by the Measures, all of the following conditions shall be satisfied for the opening of retail stores by a foreign-invested commercial enterprise (a) such enterprise shall comply with the relevant provisions regarding city development and urban commercial development of the city where the stores are to be located;(b) it shall participate in a timely manner and successfully pass the joint annual examination on foreign-invested enterprises; and (c) it shall have its registered capital paid in full.

Pursuant to the 無照經營查處取締辦法 (Measures for Investigating, Punishing and Banning Unlicensed Business Operations\*), which were promulgated on 6 January 2003 and became effective on 1 March 2003, where a person or entity conducts business without obtaining a valid permit or other approval documents as well as a business licence as required by the relevant laws or conducting business beyond the scope of operation as approved by and registered on the permit or other approval documents and business licence in accordance with the laws, the business shall be characterised as an unlicensed business operation and may be subject to investigation and punishment by the relevant authorities.

In accordance with the Measures for Investigating, Punishing and Banning Unlicensed Business Operations , the administrative departments for industry and commerce shall have the right to investigate and ban unlicensed business operations within its jurisdiction and

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impose penalties including the confiscation of any illegal income and the imposition of a fine in an amount up to RMB20,000. Where the unlicensed business operation is of a large scale and capable of causing serious social influence, a fine ranging from RMB20,000 to RMB200,000 shall be imposed.

For the purposes of the Measures and the Circular, a “wholesale or retail” business refers to the distribution of goods by an enterprise where the enterprise is not regarded as the manufacturer of the goods. We are regarded as the manufacturer for all the goods that we have sold through the internet and the World Expo Booth. According to our PRC Legal Advisers, we are not engaged in a “wholesale or retail” business for the purposes of the Measures and the Circular, and as such, we are not subject to the provisions governing “wholesale or retail” in the Measures and the Circular. However, in the event that we decide to engage in a “wholesale or retail” business or if we otherwise become subject to the Measures and the Circular in the future, we shall comply with the above requirements.

### **Internet Information Service**

According to the 中華人民共和國電信條例 (Telecommunications Regulations of the PRC\*), which were promulgated and became effective on 25 September 2000, telecommunication businesses are divided into basic telecommunication services and value-added telecommunication services.

Pursuant to the 信息產業部關於重新調整《電信業務分類目錄》的通告 (Circular of the Ministry of Information Industry on the Readjustment of the Classification Catalogue of Telecommunication Services\*), which was promulgated on 21 February 2003 and became effective on 1 April 2003, the second category of value-added telecommunication services include information services, which refer to voice information services (voice services) or on-line information and data retrieval, and other information services directly provided to terminal users through fixed networks, mobile networks or the Internet, and other public communication networks, for information collection, development and processing and the establishment of an information platform. Such information services include content services, entertainment/games, business information services and positioning information services. The users of such information services can be fixed telecommunications network users, mobile communication network users, Internet users or users of other data transmission networks.

Pursuant to the 互聯網信息服務管理辦法 (Administrative Measures for Internet Information Services\*), which was promulgated and became effective on 25 September 2000, internet information services include commercial and non-commercial services. The term “commercial internet information services” means the provision of information services, website production or other services, to online subscribers for compensation while the term “non-commercial internet information services” means the provision of information that is in the public domain and accessible without restriction, to online users without compensation. Commercial internet information service providers are subject to a permit system and non-commercial internet information services to a record-filing system. No one may engage in the provision of internet information services without having obtained permission or having carried out record-filing procedures.

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An entity or individual who wishes to engage in the provision of commercial internet information services shall apply to the telecommunications administration authority of the province, autonomous region or municipality directly under the central government or the State Council's department in charge of the information industry for an Internet Information Services Value-added Telecommunications Service Operating Permit. An entity or individual who wishes to engage in the provision of non-commercial internet information services shall carry out record-filing measures with the telecommunications administration authority of the province, autonomous region or municipality directly under the central government or the State Council's department in charge of the information industry.

In accordance with the 非經營性互聯網信息服務備案管理辦法 (Measures for the Archival Administration of Non-commercial Internet Information Services\*), which was promulgated on February, 2005 and became effective on 20 March, 2005, an entity or individual who plans to provide non-commercial Internet information services shall undergo the procedures for archiving in the provincial telecommunications administrative bureau located in his domicile. The provincial telecommunications administrations shall, via the archival administration system of the Ministry of Information Industry, conduct archival administration by means of online archiving. An entity or individual who plans to provide non-commercial Internet information services shall, in the archival administration system of the Ministry of Information Industry, truthfully complete the form "Archival Registration Form of Non-commercial Internet Information Services" and undergo the procedures for archiving.

As advised by our PRC Legal Advisers, our sales via our own website are regarded as "non-commercial internet information services" pursuant to the 互聯網信息服務管理辦法 (Administrative Measures for the Internet Information Services\*) and we are only required to undergo relevant record filing procedures in accordance with the relevant PRC laws pursuant to the 非經營性互聯網信息服務備案管理辦法 (Measures for the Archival Administration of Non-commercial Internet Information Services\*).

### **Taxation**

#### ***Income tax***

##### *General provisions*

Prior to 1 January 2008, the income tax payable by foreign-invested enterprises in the PRC was governed by the 中華人民共和國外商投資企業和外國企業所得稅法 (Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC\*) (the "**FIE Tax Law**"), which was promulgated on 9 April 1991 and became effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprises was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by PRC laws or administrative regulations prior to 1 January 2008. Income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which had establishments or places in Special Economic Zones engaged in production or business operations, or on foreign-invested enterprises that were production-oriented and were established in Economic and Technological Development Zones,



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was levied at the reduced rate of 15%. Income tax on foreign-invested enterprises which were production-oriented and established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise that was production-oriented and was scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and was allowed a 50% reduction for the following three consecutive years.

According to the newly promulgated 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC\*) (the “**New Tax Law**”), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises shall be subject to the same rate of 25% from 1 January 2008. The 中華人民共和國企業所得稅法實施條例 (Implementation Rules To the New Tax Law\*) (the “**Implementation Rules**”) were promulgated on 6 December 2007 and became effective on 1 January 2008. The New Tax Law provides relief during the transition period that applies to enterprises established before 16 March 2007 in certain circumstances, namely (i) if a foreign-invested enterprise is entitled to enjoy reduced tax rates under the laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years from 2008; and (ii) if a foreign-invested enterprise is entitled to enjoy tax exemptions for a fixed period under laws and regulations, it can continue to enjoy such exemptions until expiry of the fixed period. However, if an enterprise has not started to enjoy the tax exemptions due to a lack of profit, 2008 shall be regarded as the first profit-making year and the year from which the enterprise shall be entitled to enjoy tax exemptions.

### *Special provisions*

Pursuant to the New Tax Law and its Implementation Rules, where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments have been set up in the PRC but there is no actual relationship between such institutions or establishments and the income obtained by the institutions or establishments, such enterprises shall pay enterprise income tax in relation to the income originating from the PRC. The incomes originating from the PRC include income from the transfer of property, such as equity.

Furthermore, the 關於企業重組業務企業所得稅若干處理問題的通知 (Notice on Certain Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business\*), which was promulgated on 30 April 2009 and took effect from 1 January 2008, shall be observed by parties involved in the equity acquisition. According to the aforesaid notice, the equity acquisition refers to a transaction where an enterprise (the “**Acquiring Party**”) purchases the equities of another enterprise (the “**Acquired Party**”) to realise the control over the Acquired Party. The forms of consideration payment by the Acquiring Party include equity payment, non-equity payment or a combination of both. As a result of the application of general tax process (tax process in connection with enterprise restructuring applies general tax process provisions and special tax process provisions respectively based on different conditions), in enterprise equity acquisition, and asset acquisition and restructuring, relevant transactions shall be processed as follows: (1) the Acquired Party shall determine the gains or

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## REGULATIONS

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losses from the transfer of equities and assets; (2) the tax base for the equities or assets obtained by the Acquiring Party shall be determined on the basis of fair value; and (3) other relevant issues on income tax payment by the Acquired Party remain unchanged in principle.

The matters concerning enterprise income tax on the income derived from non-resident enterprises' equity transfers are governed by the 國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知 (Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Incomes from Non-resident Enterprises' Equity Transfers\*), which was promulgated on 10 December 2009 and took effect from 1 January 2008. According to the said Notice, "equity transfer income" used in it refers to the income received by non-resident enterprises from their transfers of the equity of PRC resident enterprises (excluding the stocks of PRC resident enterprises that are traded in the open securities markets). Where the withholding agent fails to withhold legally or finds that it is impossible to perform the withholding obligation, the non-resident enterprise in question shall file a tax return and pay enterprise income tax to the competent tax authorities at the locality of the PRC resident enterprise whose equity was transferred within seven days upon from the date of equity transfer as agreed in relevant contracts and/or agreements (where the transferring party obtained the equity transfer income in advance, the relevant date shall be the actual date on which the equity transfer income was received). Where a non-resident enterprise fails to file a tax return on time and/or according to the facts, the relevant regulations of the taxation collection and administration laws shall be referred to for handling of the same. In addition, where the non-resident enterprise transfers the equity of a PRC resident enterprise to its affiliate(s) and the transfer price thereof is not consistent with the arm's length principle resulting in a reduction in the taxable income amount, the tax authorities shall have the right to adjust the same by reasonable methods.

### *Value-added tax*

Pursuant to the 中華人民共和國增值稅暫行條例 (Provisional Regulations on Value-added Tax of the PRC\*) which were last amended on 5 November 2008 and became effective, as amended, on 1 January 2009 and, its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services and the importation of goods are required to pay value-added tax ("VAT"). VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT for those engaging in the sale or importation of goods except otherwise provided by the Provisional Regulations on Value-added Tax of the PRC and for those providing processing services, repairs and replacement services is 17%.

### **Urban Maintenance and Construction Tax and Education Surcharge**

According to the 國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知 (Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals\*), which was promulgated and became effective on 18 October 2010, from 1

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December 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax promulgated in 1985 and the Tentative Provisions on the Collection of Educational Surtax promulgated in 1986 by the State Council shall apply to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the 中華人民共和國城市維護建設稅暫行條例 (Tentative Regulations of the PRC on Urban Maintenance and Construction Tax\*), which was promulgated on 8 February 1985 and became effective in 1985, and the 國家稅務總局關於城市維護建設稅徵收問題的通知 (Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax\*), which was promulgated on 12 March 1994, from 1 January 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be paid simultaneously with the consumption tax, value-added tax or business tax. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the 徵收教育費附加的暫行規定 (Tentative Provisions on the Collection of Educational Surtax\*), which was last amended on 20 August 2005 and became effective, as amended, on 1 October 2005, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with the value-added tax, business tax and consumption tax.

### **Foreign currency exchange and dividend distribution**

#### ***Foreign currency exchange***

The principal regulation governing foreign currency exchange in the PRC is the 中華人民共和國外匯管理條例 (Foreign Exchange Administration Rules of the PRC\*) (the “**Foreign Exchange Administration Rules**”). It was promulgated by 中華人民共和國國務院 (State Council of the PRC\*) on 29 January 1996 and became effective on 1 April 1996. It was subsequently amended on 14 January 1997 and 1 August 2008. Under these rules, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfers, direct investment, investment in securities, derivative products or loans unless prior approval of the SAFE was obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a

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cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or filing with the relevant governmental authorities (if necessary).

### ***Dividend distribution***

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, the FIE Tax Law and their respective Implementation Regulations.

Under these regulations, wholly foreign-owned enterprises in the PRC may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to their foreign investors are exempt from withholding tax. However, this exemption provision has been revoked by the New Tax Law which prescribes a standard withholding tax rate of 20% on dividends and other PRC-sourced passive income of non-resident enterprises. Pursuant to the Implementation Rules the rate was reduced from 20% to 10%, with effect from 1 January 2008.

The PRC and the government of Hong Kong SAR signed the 內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排 (Arrangement between the Mainland of the PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income\*) on 21 August 2006 (the “**Arrangement**”). According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interest of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interest of the PRC company.

Furthermore, pursuant to the 國家稅務總局關於執行稅收協定股息條款有關問題的通知 (Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty\*), which was promulgated and became effective on 20 February 2009, all of the following requirements should be satisfied before a fiscal resident of the other party to the tax treaty may be entitled to the tax treaty treatment which is taxed at a rate specified in the tax treaty in respect of the dividends paid to it by a PRC resident company: a) such a fiscal resident in receipt of dividends should be a company as provided in the tax treaty; b) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the acquisition of the dividends, reaches the percentage specified in the tax treaty.

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In addition, according to the 非居民享受稅收協定待遇管理辦法(試行) (Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)\*) (“**Administrative Measures**”) which became effective on 1 October 2009, in order for a non-resident enterprise (as defined under the PRC tax laws) in receipt of dividends from PRC resident enterprises to enjoy the tax benefits under the tax treaties, an application for approval to the competent tax authority must first be submitted. The non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties without such approval.

### **Product Quality**

The principal legal provisions governing product liability are set out in the 中華人民共和國產品質量法 (Product Quality Law of the PRC\*) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

According to the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa, where the responsibility lies with the seller.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend operation and its business licence will be revoked. Criminal liability may be attached in serious cases.

### **Consumer Protection**

The principal legal provisions for the protection of consumer interests are set out in the 中華人民共和國消費者權益保護法 (Consumer Protection Law of the PRC\*) (the “**Consumer Protection Law**”), which was promulgated on 31 October 1993 and became effective on 1 January 1994.

According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

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### **Anti-Monopoly Law**

Pursuant to the Anti-Monopoly Law, “dominant market position” shall refer to a position where in an operator manipulates the price, volume and other trade conditions of commodity on relevant market, or obstructs or otherwise affects the entrance of other operators to the relevant markets. Operators holding dominant market positions shall be prohibited from engaging in practices which may be classified as an abuse of said position such as: a) selling products at unfairly high prices or buying products at unfairly low prices, b) selling products at a price lower than its cost without legitimate grounds, c) refusing to trade with other trading parties without legitimate grounds, d) forcing other trading parties to trade only with said operator or other operators specified by said operator without legitimate grounds, e) conducting tie-in sales or adding other unreasonable conditions on a deal without legitimate grounds, f) discriminating among trading parties of the same qualifications with regards to trade price, etc. without legitimate grounds, or g) adopting other practices recognised by the Anti-Monopoly Law enforcement authorities as constituting an abuse of dominant market position. Furthermore, where an operator violates the provisions of the Anti-Monopoly Law by abusing its dominant market position, the anti-monopoly law enforcement authorities shall order a halt to the offending behaviour, confiscate the illegal earnings, and impose a fine of 1-10% on the operator’s previous year’s sales revenue.

### **Competition Law**

Competitions among the business operators are generally governed by Anti-Unfair Competition Law. According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators that contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. Where the lawful rights and interests of an operator are damaged by the acts of unfair competition, the operator may institute proceedings in the People’s Court. By comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, the operator shall be responsible for the damages. Where the losses suffered by an injured operator are difficult to quantify, the amount of damages shall be determined by reference to the profit gained by the infringing operator during the period of infringement through the infringing act. The infringing operator shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the infringing operator.

### **Price Law**

Pursuant to the Price Law, operators shall, in determining prices, abide by the principle of fairness, act in accordance with law, honesty and credibility. Production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

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The operators shall, in selling, procuring commodities and providing services, display the clearly marked prices in accordance with the provisions of the competent departments of price of the government. The operators shall not sell commodities at a higher price than the marked price and shall not collect any fee not indicated. Furthermore, the operators shall not commit such unfair pricing acts such as manipulating market prices by colluding with other operators to the detriment of the lawful rights and interests of such other operators or consumers. An operator who commits any of the unfair pricing acts prescribed in the Price Law shall be ordered to rectify the situation, their illegal gains shall be confiscated and they may be concurrently imposed a fine of less than five times of the illegal gains. Where the circumstances are serious, an order shall be made for the suspension of business operations for consolidation, or the business licence revoked by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay higher prices through their illegal pricing acts should refund the portion overpaid. Where damage has been caused, liability for compensation shall be borne in accordance with the relevant laws. Any operator who violates the provision on the clear marking of prices shall be ordered to rectify the situation, their illegal gains shall be confiscated and they may be concurrently imposed a fine of less than RMB5,000.

### Intellectual Property Rights

#### *Trademarks*

Pursuant to the 中華人民共和國商標法 (Trademark Law of the PRC\*) (the “**Trademark Law**”), which was amended on 27 October 2001 and became effective, as amended, on 1 December 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years from the day the registration is approved. Nevertheless, according to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. Furthermore, when a dispute arises after a party commits any of the acts that constitute an infringement of another party’s exclusive right to use a registered trademark as provided by in the Trademark Law, the parties involved shall attempt to settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation fails, the trademark registrant or any interested party may institute legal proceedings with the People’s Court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

According to the 中華人民共和國商標法實施條例 (Regulation on the Implementation of the Trademark Law of the PRC\*) (the “**Implementation Regulation to the Trademark Law**”), which was promulgated on 3 August 2001 and became effective on 15 September 2001, the Trademark Office shall examine the applications for trademark registration that it has accepted according to the relevant provisions of the Trademark Law and the Implementation Regulation

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to the Trademark Law, and grant preliminary approval by public announcement to those applications that meet the requirements and those applications that meet the requirements for registration of trademarks to be used on some of the designated commodities. If the application does not meet the requirements or the application for registration of a trademark to be used on some of the designated commodities do not meet the requirements, the application shall be rejected, and the applicant shall be informed with an explanation of the reasons.

### ***Patent***

Pursuant to the 中華人民共和國專利法 (Patent Law of the PRC\*) (the “**Patent Law**”), which was amended on 27 December 2008 and became effective, as amended, on 1 October 2009, the term “invention” used in it refers to any new technical solution relating to a product, a process or improvement thereof, and the term “utility model” used therein refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use, while the term “design” used therein refers to any new design of the shape, pattern or their combination and the combination of colour and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

The scope of protection for the patent right for an invention or utility model shall be subject to the contents of its claims and the description and drawings attached thereto may be used to explain the contents of the claims. The scope of protection of the patent right for a design shall be subject to the design of a product displayed in pictures or photographs and the brief description may be used to explain such design. The duration of a patent right for inventions shall be twenty years and the duration of a patent right for utility models and designs shall be ten years, both from the date of application. Furthermore, where a dispute arises as a result of the exploitation of a patent without the authorisation of the patentee, that is, the infringement of the patent right of the patentee, the parties shall attempt to settle through consultation. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings in the People’s Court, or request the administrative authority for patent affairs to handle the matter.



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### ***Domain Name***

Pursuant to the 中國互聯網絡域名管理辦法 (Measures for the Administration of Internet Domain Names of the PRC\*), which were promulgated on 5 November 2004 and became effective on 20 December 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. The principle of “first come, first served” is followed for the domain name registration service. An applicant for the registration of a domain name shall submit authentic, accurate and complete information of domain name registration, and sign a subscriber registration protocol with a domain name registrar. After completing the domain name registration, the applicant becomes the holder of the domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

### **Environmental Protection**

According to the 中華人民共和國環境保護法 (Environmental Protection Law of the PRC\*) (the “**Environmental Protection Law**”), which was promulgated and became effective on 26 December 1989:

- an entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- an entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- an entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

The purposes of the Environmental Protection Law is to protect and enhance the living environment, prevent and cure contamination and other public hazards, and safeguard human health. The 中華人民共和國環境保護部 (Ministry of Environmental Protection of the PRC\*) implements uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at the county level and above are responsible for the environmental protection in their respective jurisdictions. Government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and treatment facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or entities.

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According to the 建設項目環境保護管理條例 (Regulations on The Administration of Construction Project Environmental Protection\*), which was promulgated and became effective on 29 November 1998, the state adopts a construction project environmental impact evaluation system. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that does not require feasibility study pursuant to relevant state provisions, the construction unit shall, prior to the commencement of the construction of the construction project, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. The construction unit shall, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form, for acceptance checks to be conducted so as to ensure that the construction of matching environmental protection facilities required for the said construction project have been properly completed. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

Pursuant to the 中華人民共和國水污染防治法 (Law of the PRC on Prevention and Control of Water Pollution\*) which was last revised on 28 February 2008 and with effect from 1 June 2008, urban sewage shall be disposed of in a centralised manner. Furthermore, water pollutants discharged into urban facilities for the centralised treatment of sewage shall conform to the national or local standards for the discharge of water pollutants.

According to the 中華人民共和國大氣污染防治法 (Law of the PRC on the Prevention and Control of Atmospheric Pollution\*), which was last amended on 29 April 2000 and became effective, as amended, on 1 September 2000, for construction projects which discharge atmospheric pollutants, the environmental impact statement thereof shall state the atmospheric pollution the project is likely to produce, assess its impact on the ecological environment and specify measures for its prevention and control. Furthermore, the statement shall, in accordance with the specified procedures, be submitted to the administrative department for environmental protection for examination and approval. Before the construction is put into operation or use, the facilities for the prevention and control of atmospheric pollution shall be subject to inspection and acceptance by the administrative department for environmental protection. More specifically, units that discharge atmospheric pollutants shall, pursuant to the regulations laid down by the administrative department for environmental protection under the State Council, report to the local administrative department for environmental protection the facilities installed for discharging and treating pollutants and the categories, quantities and density of the pollutants discharged under regular operation conditions and submit to the same department the relevant technical data concerning the prevention and control of atmospheric pollution. Any significant changes in items reported shall also be made known to the competent authorities in a timely manner. No units may discharge atmospheric pollutants in excess of the density specified by the State as well as that by local authorities.

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Pursuant to the 中華人民共和國固體廢物污染環境防治法 (Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes\*), which was last amended on 29 December 2004 and became effective, as amended, on 1 April 2005, a system as prescribed by the State for the declaration and registration for industrial solid wastes shall be used. The entities discharging industrial solid wastes shall, in accordance with the regulations enacted by the environmental protection administrative department of the State Council, provide information about the categories, discharging amount, flow direction, storage and treatment of and other materials concerning industrial solid wastes to the environmental protection administrative department of the local people's government at or above the county level where such entities are located. Any significant modification of the declaration matters as prescribed in the preceding paragraph shall be declared in a timely manner. Furthermore, enterprises and public institutions shall make use of industrial solid wastes produced thereby pursuant to economic and technical conditions. For those industrial solid wastes that will not or cannot be utilised within a short period of time, enterprises and public institutions shall, in accordance with the regulations of the environmental protection administrative department of the State Council, build facilities and sites for their safe and classified storage or apply treatment on them to alleviate their potentially harmful effects. The construction of facilities and sites for storing and treating industrial solid wastes shall comply with state standards on environmental protection.

According to the 中華人民共和國環境噪聲污染防治法 (Law of the PRC on Prevention and Control of Environmental Noise Pollution\*), which was promulgated on 29 October 1996 and became effective on 1 March 1997, where a construction project might cause environmental noise pollution, the unit undertaking the project must prepare an environmental impact statement, which includes measures to prevent and control such pollution, and submit it, in accordance with the procedures prescribed by the State, to the competent administrative department for environmental protection for approval. Furthermore, before such a construction project is put into production or use, its facilities for prevention and control of environmental noise pollution must be inspected and accepted by the competent administrative department for environmental protection that originally approved the environmental impact statement; if such facilities fail to meet the requirements of the State, the construction shall not be put into operation or use.

Further, in accordance with Law of the PRC on Prevention and Control of Environmental Noise Pollution, any industrial enterprise that produces environmental noise pollution due to the use of fixed equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for environmental protection of the local people's government at or above the county level, on the types and quantity of the equipment that has been producing environmental noise pollution, the noise level produced under its normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Industrial enterprises that produce environmental noise pollution shall take effective measures to minimise the impact of noise on the living environment of the neighbourhood.

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According to the 排污費徵收使用管理條例 (Regulations on the Collection and Use of Sewage Charges\*), which was promulgated on 2 January 2003 and with effect from 1 July 2003, where pollutants are discharged into the atmosphere or the ocean, the polluter shall pay the sewage charges according to the types and the number of pollutants discharged pursuant to the Law on the Prevention and Control of Atmospheric Pollution or the 中華人民共和國海洋環境保護法 (Law of the PRC on Marine Environmental Protection\*); where the pollutants are discharged into the water bodies, the polluter shall pay the sewage charges in accordance with the types and the number of pollutants discharged pursuant to the Law on the Prevention and Control of Water Pollution. If pollutants discharged into water bodies exceed the national or local discharge standards, the number of sewage charges to be paid shall be doubled in accordance with the types and the number of the pollutants discharged. However, polluters who discharge the pollutants to urban sewage centralised sewage treatment facilities and pay fees for sewage treatment are exempt from paying sewage charges. Where there are no storage buildings or disposal facilities and sites for industrial solid waste, or the storage or disposal facilities and sites for industrial solid waste fail to meet environmental protection standards, the polluter shall pay the sewage charges in accordance with the type and the number of pollutants discharged pursuant to the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes. Where the landfill disposal of hazardous waste fail to comply with state regulations, the sewage charges shall be paid in accordance with the types and the number of hazardous wastes. Where the polluter produces environmental noise pollution exceeding the national noise standards, it shall pay the sewage charges in accordance with the sound level of excessive noise emission pursuant to the Law of the PRC on Prevention and Control of Noise Pollution. Further, in accordance with the Regulations on the Collection and Use of Sewage Charges, polluters who have paid sewage charges shall not be exempted from the liability of preventing pollution, making compensation for the pollution made and assuming liabilities under other laws and administrative regulations.

### **Labour Contracts and Occupational Protection**

Pursuant to the 中華人民共和國勞動合同法 (Labour Contract Law of the PRC\*) (the “**Labour Contract Law**”), which was adopted by the Standing Committee of the National People’s Congress on 29 June 2007 and became effective on 1 January 2008, to establish a labour relationship, a written labour contract should be concluded. In the event that no written labour contract is concluded at the time when a labour relationship is established, such a written contract should be concluded within one month from the date of employment. Where the employer fails to conclude a written labour contract with the employee for more than one month but less than a year from the date it starts employing him, it shall pay the employee two times his salary for each month. In addition, if the employer fails to conclude a written labour contract with the employee within one year from the date of employment, an open-ended contract shall be deemed to have been entered into between the employer and employee.

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Pursuant to the 中華人民共和國職業病防治法 (Law of the PRC on Prevention and Control of Occupational Diseases\*) (the “**Law on Prevention and Control of Occupational Diseases**”), which was adopted by the Standing Committee of the National People’s Congress on 27 October 2001 and became effective on 1 May 2002, for construction projects, including projects for construction, expansion and reconstruction, as well as projects for technical renovation and introduction, which may produce occupational health hazards, the unit responsible for the construction project shall, during the period of feasibility study, submit to the public health administration department a preliminary assessment report on the hazards. The said department shall, within 30 days from the date the reports received, make a decision upon examination and inform the unit of the decision in writing. Where a unit fails to submit such a report to or obtain approval by the public health administration department after examination of the report, the authority concerned may not grant approval to the construction project. Furthermore, for construction projects that produce serious occupational health hazards, the design of the protective facilities shall be subject to examination by the public health administration department. Construction may only commence if the design conforms with the national norm for occupational health and meet the requirements for occupational health. Before the construction project is completed and inspection and acceptance checks are conducted, the construction unit shall assess the effect of the control of occupational health hazards. When the project is completed and ready for inspection and acceptance, the facilities for prevention of occupational diseases may be put into formal operation and use only after they pass the inspection by the public health administration department.

### **Social Insurance and Housing Provident Fund**

According to the 社會保險費徵繳暫行條例 (Provisional Regulations on Collection and Payment of Social Insurance Premium\*), which was promulgated and became effective on 22 January 1999, enterprises including foreign invested enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance (collectively referred to as “social insurance”) for their employees. The enterprises shall, within 30 days from the date of their establishment, apply for social insurance registration at the local social insurance agency which may be the taxation departments or the social insurance agency established by the administrative department of labour security according to the provisions of the State Council, on the basis of their business licences, registration certificates or other such relevant certificates. After verification, the social insurance agency shall issue them the social insurance registration certificate. Furthermore, these enterprises shall, on a monthly basis, report to the social insurance agency the amount of the social insurance premiums payable and, after assessment by the social insurance agency, pay their social insurance premiums fully and within the prescribed time period.

Pursuant to the 工傷保險條例 (Regulations on Work-Related Injury Insurances\*), which was promulgated on 27 April 2003 and became effective on 1 January 2004 as last amended on 20 December 2010, all types of enterprises including foreign-invested enterprises and other units stipulated in the Regulations on Work-Related Injury Insurances that hire workers (hereafter refer to “**Employer(s)**”) shall purchase work-related injury insurance and pay

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work-related injury insurance premiums for all of the staff and workers or hired workers in their work unit (hereafter refer to “**Employee(s)**”) in accordance with the provisions hereof. Employers shall pay work-related injury insurance premiums on time while Employees shall not pay work-related injury insurance premiums by themselves. The amount of work-related injury insurance premium payable by an Employer shall be the product of the total payroll of the Employees of the work unit and the payable premium rate. As to the rate of the payable premium, the State shall determine premium rate differentials between industries according to the degree of risks of work-related injuries in different industries, and shall determine several tiers of premium rates within each industry according to circumstances such as the use of work-related injury insurance premiums and the frequency of occurrence of work-related injuries. The Agency for a pooling region shall determine the work unit payable premium rate for an Employer on the basis of such circumstances such as use of work-related injury insurance premiums and frequency of occurrence of work-related injuries of the Employer, and the corresponding premium rate tier applicable to the industry to which the Employer belongs.

The 企業職工生育保險試行辦法 (Provisional Measures on Maternity Insurance for Enterprise Employees\*), which was promulgated on 14 December 1994 and became effective on 1 January 1995, apply to enterprises in cities and towns and their employees. According to the measures, while employees shall not pay maternity insurance premium by themselves, enterprises shall pay a certain percentage of their payroll to social insurance agencies for the establishment of the maternity insurance fund. The local people’s government shall decide the percentage of the payroll in light of the number of births within the plan, the maternity allowance to pay and other costs such as the medical fees related thereto. The percentage of the payroll may be adjusted timely by the government according to the expenditure incurred, however the maximum expenditure shall not exceed one percent of the payroll. Furthermore, enterprises shall pay the maternity insurance premiums on schedule. Where an enterprise fails to pay the premiums within the prescribed time limit, two thousand percent of the overdue amount shall be demanded and collected daily as the overdue penalty. Such overdue penalty shall be included in the maternity insurance fund. In addition, where an enterprise delays or refuses to pay the maternity allowance, or the medical fees related to, the labour administrative department shall order the payment by the enterprises within a prescribed period. Where harm is caused to the employees due to the non-payment, the enterprise should bear the liability for compensation.

According to the 中華人民共和國社會保險法 (Social Insurance Law of the PRC\*), which was promulgated on 28 October 2010 and will take effect from 1 July 2011, employees shall participate in basic pension insurance and basic medical insurance schemes. Basic pension and medical insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance, unemployment insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees; while unemployment insurance contributions shall be paid by both employers and employees.

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Pursuant to the Social Insurance Law of the PRC, if an employer fails to pay work-related injury insurance contributions in accordance with the law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the Social Insurance Law of the PRC.

As to the unemployment insurance, employers shall provide unemployed individuals with certification of the expiry or termination of their employment relations in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing their former employers' certification of the expiry or termination of employment relations. The period for enjoying unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of the PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant bank(s) and other financial institution(s) in which the employer has an account; and may apply with the relevant administrative department above the county level for an administrative order to allocate and transfer the unpaid social insurance contributions and notify the relevant bank or other financial institution in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance deferred payment agreement. If the employer does not make the social insurance contributions within the specified time limit and fails to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

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## REGULATIONS

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The 住房公積金管理條例 (Regulations on Management of Housing Provident Fund\*), which was promulgated and became effective on 24 March 2004, were applicable to enterprises with foreign investment. Enterprises are required to pay housing provident fund contributions for their employees. Enterprises shall register with the relevant housing provident fund management centre within 30 days from the date of establishment, and open housing provident fund accounts with designated bank on behalf of their employees within 20 days from the date of the registration with the verified documents of the housing provident fund management centre. When employing new employees, the enterprises shall register with the housing provident fund management centre within 30 days from the date of the employment, and open housing provident fund accounts for such employees at the designated bank with the verified documents of the housing provident fund management centre. Furthermore, the housing provident fund contributions to be paid and deposited by an employee shall be withheld from his/her salary by the enterprise, and the enterprise itself shall pay and deposit housing provident fund contributions on schedule and in full. It must not delay in making payment and deposit or underpay the housing provident fund contributions. The payment and deposit rate for housing provident fund (either for the employee or for the enterprise) shall not be less than five percent of the average monthly salary of the employee concerned in the previous year.

### **Production Safety**

Pursuant to the 特種設備安全監察條例 (Regulations on Safety Supervision of Special Equipment\*), which were promulgated on 11 March 2003 and became effective on 1 June 2003 (and was subsequently amended on 14 January 2009 and became effective, as amended, on 1 May 2009), “special equipment” used in the regulations refer to boilers, pressure vessels (including gas cylinders, same below), pressure pipelines, elevators, lifting appliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or have high risks. As required by the Regulations, putting into service of any special equipment or within 30 days after such putting into service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed in or attached to a prominent position of the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices (referred to as the “operators of special equipment”) shall not engage in corresponding operation or management until they have passed the examination organised by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment with a nationally unified formula.

Pursuant to the 危險化學品安全管理條例 (Regulations on Safety Administration of Dangerous Chemicals\*), which were promulgated on 26 January 2002 and became effective on 15 March 2002, “dangerous chemicals” used in the regulations refer to explosive, pressure gas, liquefied gas, inflammable liquid, inflammable solid, spontaneous combustible articles,



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combustible materials in case of moisture, oxidants, organic peroxide, toxic articles, corrosives, etc. The State carries out the system of registration of dangerous chemicals. Enterprises engaging in manufacturing or storage dangerous chemicals and units using hyper-toxic chemicals and other dangerous chemicals that constitute serious hazard sources in quantity shall register dangerous chemicals with the competent authority. Furthermore, a unit that manufactures, stores, or makes use of hyper-toxic chemicals shall conduct safety evaluation of its own manufacturing or storage installations once a year. A unit that manufactures, stores, or makes use of other dangerous chemicals shall conduct the safety evaluation of its own manufacturing or storage installations once every two years. The safety evaluation report shall be submitted to the administrative department in charge of the overall work for the supervision and administration of safety of dangerous chemicals of the people's government at the municipality level (with districts) for record.

The Measures for the 危險化學品登記管理辦法 (Administration of Registration of Hazardous Chemicals\*), which were promulgated on 8 October 2002 and became effective on 15 November 2002, are applicable to entities that produce or store hazardous chemicals and those that use highly toxic chemicals or use other hazardous chemicals the quantities of which constitute major hazard sources within the People's Republic of China (hereinafter referred to as "Register Entities"). According to the said measures, The State Bureau of Safe Production Supervision and Administration and other relevant state government authorities shall determine and from time to time whether to adjust the chemicals that are to be included in the 危險化學品名錄 (Catalogue of Hazardous Chemicals\*) and the Register Entities shall go through the formalities for registration of hazardous chemicals within 6 months from the day of promulgation of the Catalogue of Hazardous Chemicals. In the case of major changes in the production scale or in the product categories as well as in the physical and chemical characteristics of the products, the relevant Register Entities shall, within 3 months, make a new registration of the major changes.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### INTRODUCTION

Our Company was incorporated in the Cayman Islands on 6 March 2008 as the holding company of our Group. Baof HK is a directly wholly-owned subsidiary of our Company incorporated in Hong Kong on 7 January 2008, which directly owns the entire equity interest in Quanzhou Baofeng. Quanzhou Baofeng is a wholly foreign-owned enterprise established in the PRC on 14 July 1999 and, as the only operating subsidiary of our Group, is primarily engaged in design and manufacture of slippers.

### OUR HISTORY

Quanzhou Baofeng was established by STTC on 14 July 1999 in the PRC as a wholly foreign-owned enterprise. STTC was set up and beneficially owned by Mr. Sze and Mr. Tsang, the two founders of our Group, through a trust arrangement with the two nephews of Mr. Sze, with a view to invest in Singapore then. In the late 1990's, Mr. Sze and Mr. Tsang identified our Group as an investment opportunity in a footwear manufacturing business in Quanzhou City, Fujian Province, PRC. With a view to save costs and to expedite the application process for the establishment of a foreign-invested company in relation to their investment in our Group, Mr. Sze and Mr. Tsang decided to use STTC, which had already been established, as the foreign holding company of Quanzhou Baofeng. Mr. Sze and Mr. Tsang established Quanzhou Baofeng to invest in the slipper manufacturing business with a view to capitalise on the growing market demand for quality slippers in the PRC. In developing the business of Quanzhou Baofeng, Mr. Sze and Mr. Tsang were assisted by a management team comprising Mr. Zheng Liuhe, Mr. Zhang Aiguo, Mr. Chen Qingwei, Mr. Zheng Jingdong and Mr. Zheng Guozhang, who were all acquaintances or relatives of Mr. Sze and had assisted Mr. Sze and Mr. Tsang in the management of other business ventures invested by Mr. Sze and Mr. Tsang prior to the establishment of Quanzhou Baofeng.

Since the establishment of Quanzhou Baofeng in 1999, our Group has accumulated about ten years of experience in slipper manufacturing. Our production volume increased during the Track Record Period and we have become a leading supplier of slippers in the PRC.

Having been manufacturing slippers since 2001, we gradually developed our reputation as a quality slipper manufacturer in the industry, as evidenced by our ability to sell our products to companies and/or licensees of companies which were on the Fortune Global 500 List for the year 2009. In 2007, we launched our own branded products in light of the strategic importance of having our own brands and the market potential for such products in the PRC. Then we began to put more efforts on the domestic market in the PRC by developing and promoting our Boree brand and revising the business scope of Quanzhou Baofeng which allowed Quanzhou Baofeng to also sell their products in the PRC. We also launched Baofeng brand in 2009. Sales revenue of our branded products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately RMB120.6 million in 2009, representing a CAGR of approximately 145.0%. For the nine months ended 30 September 2010, sales revenue of our branded products was approximately RMB237.7 million, compared to approximately RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### IMPORTANT MILESTONES

The following table summarises the milestones of the business development of our Group:

- |      |  |
|------|--|
| 1999 | Establishment of Quanzhou Baofeng  |
| 2001 | Started OEM business   |
| 2002 | Quanzhou Baofeng recognised as a 自營出口超百萬美元創匯大戶 (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 recognised as one of the 省級重點鄉鎮企業 (Key Township Enterprises in Fujian Province) for the year of 2003 by 福建省鄉鎮企業局 (Bureau of Township Enterprises of Fujian Province)  |
| 2004 | Started cooperation with a chain store giant which is one of the Fortune 500 Companies for the year 2009<br>Quanzhou Baofeng recognised as one of the 中國製造業1,000家最具成長性中小企業 (Top 1,000 Fastest Growing Small and Medium Manufacturing Enterprises in China) by 中國中小企業國際合作協會 (China International Cooperation Association Small and Medium Enterprises) and 國家統計局工業交通統計司 (Department of Industries and Transportation of National Bureau of Statistics of China)   |
| 2006 | Started cooperation with a licensed distributor of a Fortune 500 Company, which sells products that have cartoon characters  |
| 2007 | Started to focus on our own branded products business and launched Boree brand   |
| 2008 | Submitted a draft national standard for slipper industry which was approved and adopted by National Development and Reform Commission of the PRC<br>Ms. Jiang Wanping, an employee of Quanzhou Baofeng, was awarded “2008 Top 10 Designers of the PRC Footwear Industry”<br>Investment of US\$10 million by CITIC Capital by way of issuance of the 2008 Exchangeable Note   |
| 2009 | Launched Baofeng brand   |
| 2010 | Selected as a licensed manufacturer for slipper products and retailer of footwear products of 2010 Shanghai World Expo<br>Installed an upgraded ERP system which links up our Group’s ordering, purchasing, inventory, sales and financing systems<br>Commenced installation of a DRP system by which our Group is able to track information on a real-time basis with respect to movements of products at certain Boree Sales Points<br>Received an award in recognition of the quality of our 2010 Shanghai World Expo Products issued by 上海世博會事務協調局 (Bureau of Shanghai World Expo Coordination*) |
| 2011 | Received an award which recognised our Boree brand as one of the top ten slipper brands in the PRC slipper and sandal industry, issued by 皮革和製鞋行業生產力促進中心 (Leather and Footwear Industry Productivity Enhancement Centre*), 全國製鞋工業信息中心 (National Footwear Industry Information Centre*), 國家鞋類質量監督檢驗中心 (National Quality Supervision and Inspection Centre of Footwear*) and 國家皮革製品質量監督檢驗中心 (National Quality Supervision and Inspection Centre of Leather Goods*)   |

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### SHAREHOLDING HISTORY OF OUR PRC SUBSIDIARY BEFORE THE REORGANISATION

#### Quanzhou Baofeng

Quanzhou Baofeng is our Group's operating subsidiary. On 14 July 1999, Quanzhou Baofeng was established as a wholly foreign-owned enterprise with a registered capital of RMB10 million by STTC. At the time of establishment, Quanzhou Baofeng was 100% held by STTC which was in turn beneficially owned as to 90% by Mr. Sze and 10% by Mr. Tsang. In order to meet the business expansion of Quanzhou Baofeng and the need for additional capital, the registered capital of Quanzhou Baofeng was increased to RMB20 million and RMB25 million in March and September of 2003, respectively. The increases in the registered capital of Quanzhou Baofeng were wholly contributed by STTC. The increases in the registered capital of STTC were approved by Quanzhou Licheng Foreign Economic and Trade Bureau on 18 February 2003 and 22 August 2003. Pursuant to the capital verification report issued by Quanzhou Gongzheng Certified Public Accountants Corporation on 15 July 2003 and 30 March 2004, the increases in the registered capital of Quanzhou Baofeng were fully paid on 10 July 2003 and 20 March 2004, respectively. After such increases, the equity interest in Quanzhou Baofeng remained to be wholly owned by STTC.

In light of the rapid growth of Quanzhou Baofeng over the years, Mr. Sze and Mr. Tsang preferred to control Quanzhou Baofeng directly instead of through STTC and therefore they decided to use Po Fai Travel Trading, a partnership directly and beneficially owned by them, to acquire the equity interest in Quanzhou Baofeng. On 15 June 2004, STTC and Po Fai Travel Trading, entered into a share transfer agreement pursuant to which STTC agreed to transfer its entire interest in Quanzhou Baofeng to Po Fai Travel Trading for a total consideration of RMB25 million. The consideration was determined with reference to the then registered capital of Quanzhou Baofeng. The Quanzhou Licheng Foreign Economic and Trade Bureau approved such share transfer on 6 August 2004. Following completion of the abovementioned transfer, Quanzhou Baofeng became a wholly-owned subsidiary of Po Fai Travel Trading. It was agreed between Mr. Sze and Mr. Tsang that Mr. Sze would have the exclusive right to manage Po Fai Travel Trading. In order to satisfy the continuing development of business of Quanzhou Baofeng, the registered capital of Quanzhou Baofeng was increased to RMB30 million and then further to RMB50 million in 2007. The increases in the registered capital of Quanzhou Baofeng were approved by Quanzhou Licheng Foreign Economic and Trade Bureau on 21 November 2006 and 25 April 2007. Pursuant to the capital verification report issued by Quanzhou Gongzheng Certified Public Accountants Corporation on 8 March 2007 and 12 December 2007, the increases in the registered capital of Quanzhou Baofeng were fully paid on 8 February 2007 and 7 December 2007, respectively. After such increases, the equity interest in Quanzhou Baofeng remained to be wholly owned by Po Fai Travel Trading. Po Fai Travel Trading was an investment vehicle only and did not carry on any business except for its then shareholding of Quanzhou Baofeng.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### REORGANISATION

In order to streamline the corporate structure and rationalise our corporate structure for the Listing, our Group underwent the Reorganisation and as a result, our Company became the holding company of our Group. The Reorganisation involved the following steps:

#### (1) Onshore restructuring

##### (a) *Acquisition of Quanzhou Baofeng by Baof HK*

On 21 January 2008, Po Fai Travel Trading and Baof HK, a company incorporated in Hong Kong, entered into a share transfer agreement (“**Share Transfer Agreement**”) pursuant to which Po Fai Travel Trading agreed to transfer its entire equity interest in Quanzhou Baofeng to Baof HK for a total consideration of RMB50 million. At that time, Baof HK was wholly owned by Mr. Sze. The consideration was determined with reference to the then registered capital of Quanzhou Baofeng. Following completion of the abovementioned transfer, Quanzhou Baofeng became an indirect wholly-owned subsidiary of our Company.

#### (2) Offshore restructuring

##### (a) *Incorporation and shareholding changes of Baof HK*

Baof HK was incorporated in Hong Kong by Mr. Sze on 7 January 2008 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00. At the time of incorporation, one subscriber share of par value HK\$1.00 in the capital of Baof HK was issued to Bosco Nominees Limited at par value. On 8 January 2008, the one subscriber share held by Bosco Nominees Limited was transferred to Mr. Sze at par value, which was HK\$1.00. Baof HK’s incorporation was part of the Reorganisation. Mr. Sze incorporated Baof HK in order to hold the equity interest of Quanzhou Baofeng through a corporation instead of a partnership, which was Po Fai Travel Trading. To expedite the process involved in Baof HK’s incorporation and out of convenience, Mr. Sze incorporated Baof HK with himself as the sole shareholder at the time of Baof HK’s incorporation.

On 25 March 2008, our Company subscribed for and Baof HK allotted and issued 9,999 new shares to our Company for a total consideration of HK\$9,999, which represented the par value of such shares.

By a declaration of trust signed by Mr. Sze in favour of our Company dated 25 March 2008, Mr. Sze held the one share in Baof HK on trust for and on behalf of our Company starting from 25 March 2008. On 17 July 2008, Mr. Sze transferred the legal title to the one share in Baof HK to our Company at nil consideration.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### (b) *Incorporation and shareholding changes of our Company*

Our Company was incorporated in the Cayman Islands on 6 March 2008 to act as the ultimate holding company of the subsidiaries in our Group. Upon the incorporation of our Company, one subscriber share in the capital of our Company of US\$0.01 was allotted and issued as a nil-paid share to Ian Ashman as the initial subscriber. On 10 March 2008, Ian Ashman transferred to Mr. Sze the one subscriber share in the capital of our Company at nil consideration such that our Company was wholly owned by Mr. Sze subsequent to the transfer.

On 7 April 2008, 35,989 nil-paid Shares and 17,515 nil-paid Shares were also allotted and issued to Mr. Sze and Mr. Tsang, respectively. Accordingly, Mr. Tsang, whose interest in our Group was not reflected at the time of Baof HK's incorporation, maintained and increased his interests in our Group. Out of the 17,515 nil-paid Shares issued to Mr. Tsang, 7,515 Shares were offered to him as incentive for him to manage the business and in recognition of his contribution to our Group in the past. On the same date, in consideration for the long term dedication and contribution to our Group by Zheng Guozhang and Chen Qingwei, two members of the senior management of our Group, 28,980 nil-paid Shares and 17,515 nil-paid Shares of our Company were allotted and issued to Zheng Guozhang and Chen Qingwei, respectively. Pursuant to a confirmation letter signed by each of Mr. Sze and Mr. Tsang dated 24 March 2008, Mr. Tsang agreed to give due respect to the view of Mr. Sze when exercising all of the voting rights attaching to his interest in our Company and he would vote in concert with Mr. Sze. On the same date, each of Zheng Guozhang and Chen Qingwei also signed a confirmation letter with Mr. Sze and agreed to give due respect to the view of Mr. Sze when exercising all of the voting rights attaching to his interest in our Company.

As a result of the allotment and issuance as described in the preceding paragraph, as at 7 April 2008, Mr. Sze, Mr. Tsang, Zheng Guozhang and Chen Qingwei held 35,990 nil-paid Shares, 17,515 nil-paid Shares, 28,980 nil-paid Shares and 17,515 nil-paid Shares of our Company, respectively, representing approximately 35.990%, 17.515%, 28.980% and 17.515%, respectively, of the then issued share capital of our Company.

On 21 July 2008, Mr. Sze transferred his 35,990 nil-paid Shares of our Company to Best Mark, a company incorporated in the BVI and wholly owned by him, at nil consideration. On the same date, Mr. Tsang transferred 10,195 nil-paid Shares of our Company to Fortune Best, a company incorporated in the BVI and wholly owned by him, at nil consideration, and transferred the remaining 7,320 nil-paid Shares to Capital Vision, a company incorporated in the BVI and wholly owned by Mr. Sze, at nil consideration. As a result, the interest ultimately held by the Mr. Tsang in our Company was reduced from 17.515% to 10.195%. To the best knowledge of the Directors, as Mr. Tsang's health deteriorated, he and Mr. Sze agreed that Mr. Tsang would not manage the business as expected and accordingly 7,320 Shares, representing the 7.32% interest in our Company, were transferred to Capital Vision, which is owned by Mr. Sze, at nil consideration.

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Also on 21 July 2008, the abovementioned two members of the senior management of our Group, Mr. Zheng Guozhang and Mr. Chen Qingwei transferred 28,980 nil-paid Shares and 17,515 nil-paid Shares that each of them held in our Company, respectively, to Best Mark at nil consideration. The reason for such transfers by Mr. Zheng Guozhang and Mr. Chen Qingwei was because they failed to complete the foreign exchange registration procedures in accordance with 個人外匯管理辦法 (the Measures for Administration of Foreign Exchange Held by Individuals), and therefore they were not able to enjoy the shareholder benefits intended to be granted pursuant to the share transfers on 7 April 2008 in exchange for their continuous contribution to our Group. The 28,980 and 17,515 nil-paid Shares were offered to Mr. Zheng Guozhang and Mr. Chen Qingwei in recognition of their long term contribution to our Group in the past. Since they did not complete the relevant foreign exchange registration procedures and were therefore not able to enjoy the shareholder benefits as explained above, they transferred such shares to Best Mark which is wholly owned by Mr. Sze for nil consideration.

As a result of the above share transfers, as at 21 July 2008, Best Mark, Fortune Best and Capital Vision became shareholders of our Company and each of them had then fully paid-up its 82,485 Shares, 10,195 Shares and 7,320 Shares in our Company, which represented approximately 82.485%, 10.195% and 7.320% of the issued share capital of our Company, respectively. Accordingly, our Company was beneficially owned as to 89.805% by Mr. Sze and as to 10.195% by Mr. Tsang subsequent to the above share transfers.

On 22 September 2008, our Company issued and CITIC Capital subscribed for one redeemable preference share of our Company at par value of US\$0.01 (the “**Preference Share**”). Consequently, as at 22 September 2008, our Company were held as to 82.4842% by Best Mark, 7.3199% by Capital Vision, 10.1949% by Fortune Best and 0.001% by CITIC Capital. Mr. Sze, through Best Mark and Capital Vision, indirectly held in aggregate approximately 89.8041% of our Company. Mr. Tsang, through Fortune Best, indirectly held approximately 10.1949% of our Company. Pursuant to a confirmation letter signed by Mr. Tsang and Mr. Sze dated 21 July 2008, as amended on 7 May 2010, Mr. Tsang agreed to give due respect to the view of Mr. Sze when exercising all the voting rights attaching to his interests in Fortune Best and he will vote in concert with Mr. Sze.

On 11 May 2010, Mr. Tsang transferred the entire issued share capital in Fortune Best to Ms. Chan Sau Fong, his wife, for nil consideration for the purpose of his estate planning. On 8 June 2010, Mr. Tsang passed away. Since Ms. Chan Sau Fong is not a party to the abovementioned undertaking signed by Mr. Tsang, the undertaking is not binding on her.

On 30 June 2010, our Company, Best Mark and Mr. Sze entered into a share subscription agreement, pursuant to which our Company issued 816 Shares to Best Mark in consideration for Mr. Sze assigning all his rights to and in a loan of HK\$10,000,000 owed to him by Baof HK to our Company.

After such issue and allotment of 816 Shares to Best Mark, our Company was held as to 82.6259% by Best Mark, 7.2607% by Capital Vision, 10.1124% by Fortune Best and 0.001% by CITIC Capital.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On 21 December 2010, our Company, Best Mark and Mr. Sze entered into a share subscription agreement, pursuant to which our Company issued 1,903 Shares to Best Mark in consideration for Mr. Sze assigning to our Company all his rights to and in a loan of HK\$15,000,000 owed to him by Baof HK.

After such issue and allotment of 1,903 Shares to Best Mark, our Company was held as to 82.9478% by Best Mark, 7.1262% by Capital Vision, 9.9250% by Fortune Best and 0.0010% by CITIC Capital.

### (c) *Pre-IPO Investment by CITIC Capital*

On 8 August 2008, CITIC Capital, our Company, Baof HK, Quanzhou Baofeng, Best Mark, Fortune Best, Capital Vision, Active Logic, Joy Wise, Mr. Tsang, Mr. Sze, Mr. Zheng Guozhang and Mr. Chen Qingwei entered into the Note Agreement pursuant to which CITIC Capital purchased from our Company one exchangeable note, one preference share and one option for a total consideration of US\$10 million. Please see the sub-section headed “Pre-IPO Investment by CITIC Capital” in this section of the prospectus for a description of the investments by CITIC Capital.

## PRC LEGAL COMPLIANCE

### (1) *The M&A Rules*

On 8 August 2006, six PRC Governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated 關於外國投資者併購境內企業的規定 (the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors\*) (the “**M&A Rules**”) which became effective on 8 September 2006 and was revised on 22 June 2009. Pursuant to the M&A Rules, merger or acquisition of a domestic enterprise by a foreign investor means (i) that a foreign investor purchases equity interest owned by shareholders in a domestic enterprise other than a foreign-invested enterprise or subscribes to the increased capital of a domestic company, whereby to convert such domestic company into a foreign-invested company, or (ii) that a foreign investor establishes a foreign-invested enterprise through which assets of a domestic enterprise are subsequently acquired by agreement and operated, or (iii) that a foreign investor acquires the assets of a domestic enterprise by agreement and subsequently establishes a foreign-invested enterprise with such assets and then operate such assets. Under such M&A Rules, establishment of a foreign-invested enterprise by foreign investors through merger with and acquisition of a domestic entity shall be subject to approval by the approval authority, and to completion of new registration, or amendment to existing registration, with the registration administrative authority.

Our PRC Legal Advisers have advised that approval by the CSRC for the Reorganisation is not required for the following reasons: (a) Quanzhou Baofeng was originally a foreign-invested enterprise when STTC, a foreign investor, established it on 14 July 1997 and it is not to be converted into a foreign invested enterprise by virtue of merger or acquisition of a domestic entity by the foreign investor; and (b) no merger and acquisition as defined in the



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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M&A Rules occurred in connection with each step of the Reorganisation as described above in the sub-section headed “Reorganisation” in this section of the prospectus. Based on the above, the M&A Rules are not applicable to our Group in connection with the Reorganisation.

As a result, our PRC Legal Advisers have confirmed that we are not required to obtain further approvals from the CSRC or other competent authorities and the Reorganisation of our Group and the Listing of our Company does not require CSRC approval.

### (2) *Circular 75 Registration*

Pursuant to Circular 75, domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with local foreign exchange authority.

As advised by our PRC Legal Advisers, since Mr. Sze and Ms. Chan Sau Fong are residents of Hong Kong instead of “domestic residents” as referred to in Circular 75, they are not subject to Circular 75 and do not need to complete foreign exchange registration formalities with SAFE for their offshore investment.

Our PRC Legal Advisers have further confirmed that, save as the foreign exchange registration in accordance with 個人外匯管理辦法 (the Measures for Administration of Foreign Exchange Held by Individual\*) by Mr. Zheng Guozhang and Mr. Chen Qingwei in relation to their then shareholding in our Company from 7 April 2008 to 21 July 2008 disclosed above, no other PRC approvals or consents in relation to the Reorganisation of our Group, the Listing of our Company and our Controlling Shareholders’ direct or indirect interest in our Company are required to be obtained.

As advised by our PRC Legal Advisers, save for the failure to complete the foreign exchange registration procedures in accordance with the Measures for Administration of Foreign Exchange Held by Individuals by Mr. Zheng Guozhang and Mr. Chen Qingwei in respect of their holdings of our Company’s shares during the period from 7 April 2008 to 21 July 2008 and Quanzhou Baofeng’s remittance of dividends out of the PRC to the shareholders of our Company during the corresponding period, our Company had obtained all the requisite permits, licences and approvals for each stage of the Reorganisation in accordance with the relevant PRC laws and regulations.

As confirmed by the compliance letter issued by the Quanzhou Branch Bureau of the State Administration of Foreign Exchange on 26 August 2010, the competent authority will not hold Quanzhou Baofeng, its shareholders and other relevant persons liable for the aforesaid incidents. On the basis thereof, our PRC Legal Advisers have advised that the aforesaid incidents shall not constitute impediments to the Company’s Listing in so far as the PRC laws and regulations are concerned.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### PRE-IPO INVESTMENT BY CITIC CAPITAL

#### Background of CITIC Capital

CITIC Capital is a company incorporated in the Cayman Islands and an investment company managed by CITIC Capital Mezzanine Management Limited and advised by CITIC Capital SIF Advisory Limited (formerly known as CITIC Capital Mezzanine Advisory Limited). CITIC Capital Mezzanine Management Limited and CITIC Capital SIF Advisory Limited are wholly-owned subsidiaries of CITIC Capital Holdings Limited. Other than CITIC Capital's investment in our Company and Mr. Cheung Miu's directorships in our Group, CITIC Capital is independent of and not connected with the Directors, senior management or substantial Shareholders of our Company or any of our subsidiaries or any of their respective associates.

#### 2008 Exchangeable Note Purchase Agreement

On 8 August 2008, CITIC Capital entered into the Note Agreement with our Company, Mr. Sze, Mr. Tsang, Mr. Chen Qingwei, Mr. Zheng Guozhang, Best Mark, Capital Vision, Fortune Best, Joy Wise, Active Logic and Quanzhou Baofeng. Pursuant to the Note Agreement, our Company on 22 September 2008 issued and sold to CITIC Capital, and CITIC Capital purchased from our Company the 2008 Exchangeable Note with an aggregate principal amount of US\$10,000,000 (equivalent to approximately RMB67,915,000) with 6% interest during the first year after the issuance of the 2008 Exchangeable Note and 8% for each year thereafter. The consideration of US\$10,000,000 for the 2008 Exchangeable Note, being the principal amount of the 2008 Exchangeable Note, was paid on 22 September 2008. Such amount was based on our Company's then assessment of its capital requirements for the term of the 2008 Exchangeable Note and has been utilised for general working capital purposes of Quanzhou Baofeng and Baof HK. In addition, on 22 September 2008, CITIC Capital also subscribed for (1) the Preference Share of our Company at par value of US\$0.01, and (2) a call option, whereby CITIC Capital, during a specified period, has a right to request existing Shareholders transfer to it a certain number of Shares. The holding of the Preference Share entitled CITIC Capital to enjoy various rights as a member of the Company under the articles of association of the Company. Upon the exchange of the 2008 Exchangeable Note into Shares, our Company will redeem the Preference Share at a consideration of the par value of the Preference Share from CITIC Capital.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### Shareholders' and Note Holders' Agreement

On 22 September 2008, our Company, CITIC Capital, Mr. Sze, Mr. Tsang, Mr. Chen Qingwei, Mr. Zheng Guozhang, Best Mark, Capital Vision, Fortune Best, Joy Wise, Active Logic, and Baof HK entered into a shareholders' and note holders agreement (the "**Shareholders' Agreement**"). The Shareholders' Agreement regulates the rights and obligations of the Shareholders and the holder(s) of the 2008 Exchangeable Note.

Under the Shareholders' Agreement, for as long as CITIC Capital holds the 2008 Exchangeable Note or the Preference Share, CITIC Capital has an exclusive right to appoint one director to the Board and may remove and replace the appointees by notice in the writing served on our Company. CITIC Capital, as the holder of the 2008 Exchangeable Note, has a right of first refusal over the Shares proposed to be sold by other Shareholders and a tag-along right to participate in the sale of the Shares by other Shareholders.

Pursuant to the Shareholders' Agreement, each Shareholder has a right to purchase its pro rata share of the issuance of any securities by our Company to any person and to over-subscribe if any other Shareholder elects not to purchase its pro rata share of such issuance.

The Shareholders' Agreement will terminate on the earlier of (a) the date of a Qualified IPO (as defined in the 2008 Exchangeable Note); (b) the date on which CITIC Capital ceases to hold the 2008 Exchangeable Note, the Preference Share or any Shares; and (c) a date agreed upon in writing by all the parties to the Shareholders' Agreement.

CITIC Capital will cease to enjoy the foregoing preferential rights upon the exchange of the 2008 Exchangeable Note into Shares, which is expected to be carried out before the Listing.

### The Deed of Call Option

Pursuant to the Note Agreement, CITIC Capital also entered into a Deed of Call Option No. 1 dated 22 September 2008 (the "**Option Deed**"), pursuant to which Best Mark, Capital Vision and Fortune Best, being Shareholders at the time, granted CITIC Capital an option to purchase from each of Best Mark, Capital Vision and Fortune Best, respectively, a certain number of Shares within a period of eighteen months from the date on which the amount under the 2008 Exchangeable Note has been fully redeemed. In the event that the 2008 Exchangeable Note is exchanged in full, the option pursuant to the Option Deed will not be exercisable.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### The 2008 Exchangeable Note

Pursuant to the Note Agreement, our Company issued and sold the 2008 Exchangeable Note to CITIC Capital on 22 September 2008 (the “**Note Issue Date**”), the maturity date of which is the third anniversary of such issue date (the “**Maturity Date**”).

Our Company is obliged to pay interest on the 2008 Exchangeable Note semi-annually at a rate of 6% per annum for the first year from the Note Issue Date and 8% per annum for each year thereafter or, at any time following the occurrence of an event of default and for so long as such event of default is continuing, at a rate of the applicable rate (i.e. 6% or 8%, as the case may be) plus 3% (collectively, the “**Basic Interest Rates**”), until the date on which the 2008 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.

The 2008 Exchangeable Note is exchangeable for Shares held by Best Mark, Capital Vision and Fortune Best before the Maturity Date. The number of Shares to be exchanged shall be equal to the total number of issued Shares as at the exchange date multiplied by an exchange ratio. The exchange ratio is calculated in accordance with a pre-set formula set out in the 2008 Exchangeable Note and is subject to adjustment from time to time.

The initial exchange ratio shall be determined by the following formula:

$$A = B \div (C \times 7)$$

Where:

A: the initial exchange ratio;

B: the aggregate principal amount of the 2008 Exchangeable Note, being US\$10,000,000; and

C: the U.S. dollar equivalent of the Quanzhou Baofeng’s after-tax net profit, as adjusted for the non-recurrent profit and loss for the year of 2007, audited by the designated accounting firm in accordance with IFRS (the “**2007 Adjusted Net Profit**”)

The initial exchange ratio shall be adjusted from time to time as follows:

- (i) if the total net profit of our Company as reflected in our Company’s audited consolidated financial statements for the year ended 31 December 2007 prepared in accordance with IFRS (the “**2007 Accounts**”) is less than RMB68,000,000, the exchange ratio shall be adjusted by multiplying the initial exchange ratio by a fraction, the numerator of which is RMB68,000,000 and the denominator of which is the actual amount of total net profit of our Company in the 2007 accounts. The initial exchange ratio, or the adjusted exchange ratio as a result of this paragraph (i), whichever is higher, is referred to as the “**2007 Exchange Ratio**”;

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (ii) if the total net profit of our Company as reflected in our Company's audited consolidated financial statements for the year ended 31 December 2008 prepared in accordance with IFRS (the "**2008 Accounts**") is less than RMB82,000,000, the exchange ratio shall be adjusted by multiplying the 2007 Exchange Ratio by a fraction, the numerator of which is RMB82,000,000 and the denominator of which is the actual amount of total net profit of our Company in the 2008 accounts. The 2007 Exchange Ratio, or the adjusted exchange ratio as a result of this paragraph (ii), whichever is higher, is referred to as the "**2008 Exchange Ratio**";
  
- (iii) if the total net profit of our Company as reflected in our Company's audited consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (the "**2009 Accounts**") is less than RMB101,000,000, the exchange ratio shall be adjusted by multiplying the 2008 Exchange Ratio by a fraction, the numerator of which is RMB101,000,000 and the denominator of which is the actual amount of total net profit of our Company in the 2009 accounts. The 2008 Exchange Ratio, or the adjusted exchange ratio as a result of this paragraph (iii), whichever is higher, is referred to as the "**2009 Exchange Ratio**"; and
  
- (iv) if the total net profit of our Company as reflected in our Company's audited consolidated financial statements for the year ended 31 December 2010 prepared in accordance with IFRS (the "**2010 Accounts**") is less than RMB115,000,000<sup>1</sup>, the exchange ratio shall be adjusted by multiplying the 2009 Exchange Ratio by a fraction, the numerator of which is RMB115,000,000 and the denominator of which is the actual amount of total net profit of our Company in the 2010 accounts. The 2009 Exchange Ratio, or the adjusted exchange ratio as a result of this paragraph (iv), whichever is higher, is referred to as the "**2010 Exchange Ratio**".

Upon the occurrence of any event of default under the 2008 Exchangeable Note, CITIC Capital may elect to require our Company to redeem all of the outstanding principal amount under the 2008 Exchangeable Note, at a price equal to the amount of the outstanding principal of the 2008 Exchangeable Note plus the amount of interest calculated at the rate of 18% compounded annually from the Note Issue Date to the redemption date less the aggregate amount of the interest that has been actually paid to CITIC Capital (the "**Redemption Price**"). Such redemption amount payable by our Company is reduced under the Restructuring Deed. Please see the sub-section headed "Pre-IPO Investment by CITIC Capital — Restructuring Deed" in this section of the prospectus for further details.

*Note:*

1. *The performance benchmark of a total net profit of no less than RMB115,000,000 for the year ended 31 December 2010 for the purpose of determining the 2010 Exchange Ratio is not and should not be treated a profit estimate.*

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Our Company is not entitled to redeem any part of the 2008 Exchangeable Note on or before the Maturity Date unless required by CITIC Capital on the terms of the 2008 Exchangeable Note. If our Company has not completed a “Qualified IPO” (as defined below), on or before the Maturity Date, to the extent that the 2008 Exchangeable Note is not redeemed or exchanged, our Company is expected to redeem the 2008 Exchangeable Note at the Redemption Price on the Maturity Date. A “Qualified IPO” means an initial public offering of the Shares on the Main Board of the Stock Exchange or any other internationally recognised stock exchange (outside the PRC) acceptable to CITIC Capital and our Company (“**IPO**”) where (a) the pre-offering market capitalisation of the Issuer shall be at least the U.S. dollar or Hong Kong dollar equivalent of RMB1,370,000,000; (b) immediately after the IPO, at least 25% of the Shares then in issue are publicly traded; (c) our Company shall engage one or more international investment or merchant banks as the sponsors and financial advisors for the IPO; (d) our Company shall engage a designated accounting firm for the IPO; (e) a detailed investor’s relation plan has been devised by our Company and (f) there are sufficient resources to implement for at least 12 months from the IPO; provided always that CITIC Capital shall be consulted throughout the process of the IPO and our Company shall not undertake the IPO if the above conditions are not met. The Global Offering is a Qualified IPO for the purposes of the 2008 Exchangeable Note.

The due performance of the obligations of each of Mr. Sze, Mr. Tsang, Mr. Chen Qingwei, Mr. Zheng Guozhang, Best Mark, Capital Vision, Fortune Best, Joy Wise, Active Logic and any member of our Group under the 2008 Exchangeable Note are secured by the following securities (collectively, the “**Exchangeable Note Securities**”):

- (i) a Charge Over Share executed by each of Mr. Sze, Mr. Tsang, Mr. Chen Qinwei and Mr. Zheng Guozhang, in favour of CITIC Capital pursuant to which, among other terms, 100% of the issued share capital of Best Mark and Capital Vision directly owned by Mr. Sze, 100% of the issued share capital of Fortune Best directly owned by Mr. Tsang, 100% of the issued share capital of Joy Wise directly owned by Mr. Chen Qingwei and 100% of the issued share capital of Active Logic directly owned by Mr. Zheng Guozhang is charged to CITIC Capital, respectively;
- (ii) a Charge Over Shares executed by each of Best Mark, Fortune Best, Capital Vision, Joy Wise and Active Logic, respectively, in favour of CITIC Capital pursuant to which all its rights, title and interests in and to all Shares then held by it is charged to CITIC Capital;
- (iii) a Charge Over Shares executed by our Company in favour of CITIC Capital under which, among other terms, 100% of the issued share capital of Baof HK directly owned by our Company is charged to CITIC Capital;
- (iv) a Charge Over Share executed by Baof HK in favour of CITIC Capital under which, among other terms, 100% of the equity interest in Quanzhou Baofeng directly owned by the Baof HK is charged to CITIC Capital; and

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (v) a Debenture executed by each of our Company and Baof HK in favour of CITIC Capital, respectively, constituting a fixed and floating charge over all of its respective assets;
- (vi) a Security Assignment of Debt entered into by our Company, Baof HK and CITIC Capital, pursuant to which our Company assigned to CITIC Capital all its rights, title, benefits and interests in debts being owed by Baof HK to our Company from time to time; and
- (vii) a Security Assignment of Debt entered into by Baof HK, Quanzhou Baofeng and CITIC Capital, pursuant to which Baof HK assigned to CITIC Capital all its rights, title, benefits and interests in debts being owed by Quanzhou Baofeng to Baof HK from time to time.

On 17 January 2011, CITIC Capital and other parties to the Exchangeable Note Securities have entered into certain conditional release and discharge agreements, pursuant to which, the Exchangeable Note Securities will be duly released and discharged upon the exchange of the 2008 Exchangeable Note in full, which is expected to take place on the Listing Date and prior to the commencement of trading of the Shares on the Stock Exchange.

### Restructuring Deed

For the purposes of restructuring the rights and obligations of the parties under the Note Agreement, the 2008 Exchangeable Note, the Shareholders' Agreement, the Option Deed and the Exchangeable Note Securities in respect of the pre-IPO investment by CITIC Capital (collectively, the "**Pre-IPO Investment Agreements**"), certain parties to the Pre-IPO Investment Agreements and Ms. Chan Sau Fong, the spouse of Mr. Tsang (individually a "**Party**", and collectively the "**Parties**") entered into a deed on 28 September 2010 and an amending deed on 31 December 2010 (together, the "**Restructuring Deed**") pursuant to which CITIC Capital waived certain of its rights under the Pre-IPO Investment Agreement and Ms. Chan Sau Fong, assumed certain obligations of Mr. Tsang under the Pre-IPO Investment Agreement. Pursuant to the Restructuring Deed, among other things,

- (a) since 22 April 2010, which is the effective date of the Restructuring Deed, our Company is no longer liable to pay on the Maturity Date or the date our Company redeems the 2008 Exchangeable Notes upon any event of default on the election of CITIC Capital ("**Redemption Date**") the amount of interest that is the difference between the amount of interest calculated at 18% and the Basic Interest Rates;

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (b) the shareholders of our Company (other than CITIC Capital) assume the obligation to pay an amount equivalent to the amount of interest calculated at the rate of 18% per annum deferred and compounded on an annual basis from the Note Issue Date to the Maturity Date or the Redemption Date (as the case may be), less the aggregate amount of interest that has been actually paid to CITIC Capital as at that date if (i) a Qualified IPO has not been completed on or before the Maturity Date, or (ii) if CITIC Capital elects to require the Company to redeem all the outstanding amount of the 2008 Exchangeable Note upon any event of default;
- (c) CITIC Capital's right to extend the date of the Maturity Date to the fourth anniversary of the Note Issue Date is removed;
- (d) CITIC Capital waives all of its rights, claims and/or remedies in respect of any prior breaches of certain of the financial covenants by our Company and certain other events of default (as defined in the 2008 Exchangeable Note), including but not limited to its right or entitlement to payment of default interest. The following financial covenants (the "**Initial Financial Covenants**") under the 2008 Exchangeable Note were breached:
  - 1. the total net profit of our Company as reflected in the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts (in each case, (x) after adjustment for the non-recurrent profit and loss and (y) before deducting interest accrued under the 2008 Exchangeable Note) should not be less than RMB68,000,000, RMB82,000,000, RMB101,000,000 and RMB115,000,000, respectively;
  - 2. the ratio of total liabilities to total equity of our Company should not exceed 40% in each of the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts;
  - 3. the total liabilities as reflected in the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts should not exceed 200% of the EBITDA (as defined in the 2008 Exchangeable Note) of the relevant year; and
  - 4. the total net assets of our Company as reflected in the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts shall not be less than RMB124,000,000, RMB200,000,000, RMB270,000,000 and RMB350,000,000, respectively;
- (e) the obligation of our Company to pay the additional 3% default interest semi-annually in respect of certain identified events of default for the period from the Note Issue Date to 22 April 2010 is waived; and



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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- (f) with effect from 22 April 2010, CITIC Capital should only enforce the relevant provisions in the 2008 Exchangeable Note in relation to the Initial Financial Covenants as if they were deleted in their entirety and replaced by the following:
1. the total net profit of our Company as reflected in the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts (in each case, after adjustment for the non-recurring profit and loss and before deducting any interest accrued under the 2008 Exchangeable Note) should not be less than RMB67,000,000, RMB76,000,000, RMB78,000,000 and RMB100,000,000<sup>1</sup>, respectively;
  2. the ratio of total liabilities (without taking into account the principal amount of the 2008 Exchangeable Note) to total equity of our Company shall not exceed 70%, 85%, 65% and 60% in each of the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts, respectively; and
  3. the total net assets of our Company as reflected in the 2007 Accounts, 2008 Accounts, 2009 Accounts and 2010 Accounts (in each case, (x) excluding non-recurring profit and loss items (including, without limitation, expenses incurred in relation to the IPO), and (y) before deducting any interest accrued under the 2008 Exchangeable Note) shall not be less than RMB124,000,000, RMB150,000,000, RMB220,000,000 and RMB300,000,000, respectively.

These revised financial covenants, as well as other financial covenants under the 2008 Exchangeable Note, apply so long as any principal amount under the 2008 Exchangeable Note remains outstanding or CITIC Capital holds any Shares transferred to it pursuant to the exchange right under the 2008 Exchangeable Note. A breach of the financial covenants would constitute an event of default under the 2008 Exchangeable Note, which would have the following consequences:

- i. CITIC Capital would be entitled to elect to require our Company to redeem all of the outstanding principal amount under the 2008 Exchangeable Note at the Redemption Price. Upon such redemption, our Company would be required to pay that part of the Redemption Price that is an amount equivalent to the outstanding principal amount with respect to the portion of the 2008 Exchangeable Note being redeemed plus interest calculated thereon at the Basic Interest Rate(s), less the aggregate amount of interest that has by that time been paid to CITIC Capital. The shareholders of our Company who are parties to the Restructuring Deed, other than CITIC Capital, would

*Note:*

1. *The performance benchmark of a total net profit of no less than RMB100,000,000 for the year ended 31 December 2010 is not and should not be treated as a profit estimate.*

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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be required, by the terms of the Restructuring Deed, to pay, upon redemption, that part of the Redemption Price that is an amount equivalent to the amount of interest on the outstanding principal amount with respect to the portion of the 2008 Exchangeable Note being redeemed calculated at the rate of 18% per annum, less the aggregate amount of interest that has been actually paid to CITIC Capital;

- ii. for so long as the event of default is continuing, interest on the outstanding principal amount under the 2008 Exchangeable Note would accrue at the default rate (i.e. an additional 3% per annum); and/or
- iii. CITIC Capital may be entitled to other remedies under general law.

Our Directors confirm that since 22 April 2010 and as at the Latest Practicable Date, there has not been any breach of any applicable financial covenants in relation to the 2008 Exchangeable Note.

### **Exchange of the 2008 Exchangeable Note**

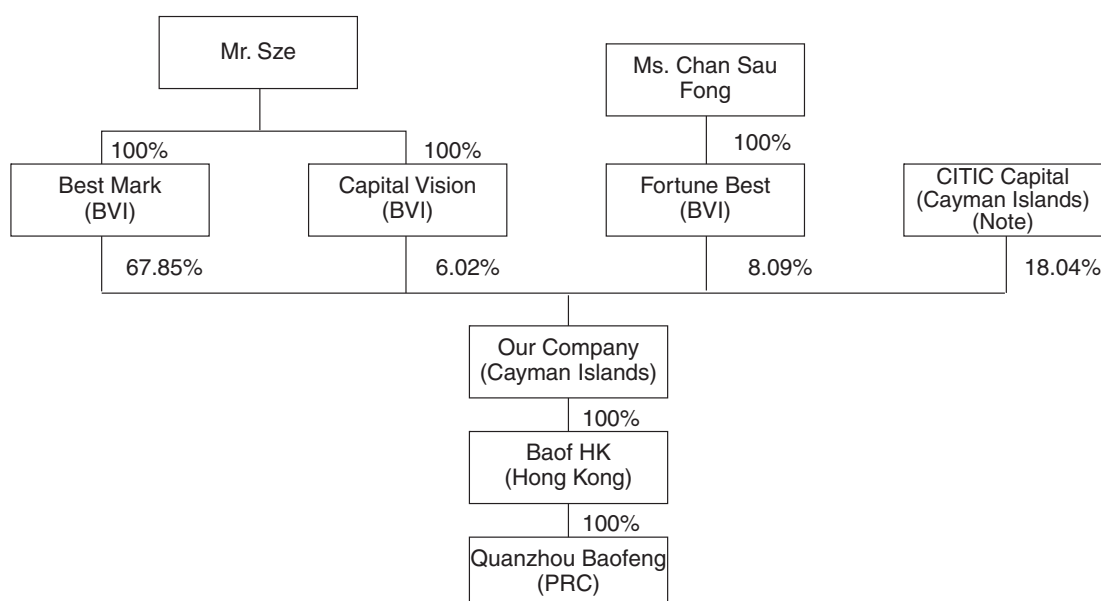
On 17 January 2011, CITIC Capital delivered three exchange notices to Best Mark, Fortune Best and Capital Vision, subject to (i) the Listing Committee granting the listing of, and permission to deal in the Shares; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and remaining unconditional and not having been terminated in accordance with their terms or otherwise at or before 8:00 a.m. on the Listing Date, to exchange the 2008 Exchangeable Note into Shares and requested Best Mark, Fortune Best and Capital Vision to transfer 15,509, 1,890 and 1,135 Shares to CITIC Capital on the Listing Date. Upon completion of such exchange and immediately before the Capitalisation Issue and the Global Offering, our Company will be held as to approximately 67.85%, 8.09%, 6.02% and 18.04% by each of Best Mark, Fortune Best, Capital Vision and CITIC Capital, respectively.

CITIC Capital has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Sole Lead Manager (for itself and on behalf of the other Underwriters) that the Shares transferred to it upon exchange of the 2008 Exchangeable Note other than any Sale Shares and subject to other exception shall be subject to a lock-up for a period commencing on the date of the undertaking until the expiry of six months period from the Listing Date. Please see the section headed "Underwriting" in this prospectus for further details.

The effective exchange price under the 2008 Exchangeable Note held by CITIC Capital is US\$0.07 (equivalent to approximately HK\$0.57) per Share, representing a discount ranging from approximately 71.15% to 80.73% to the expected range of the Offer Price of between HK\$1.99 and HK\$2.98 per Share.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

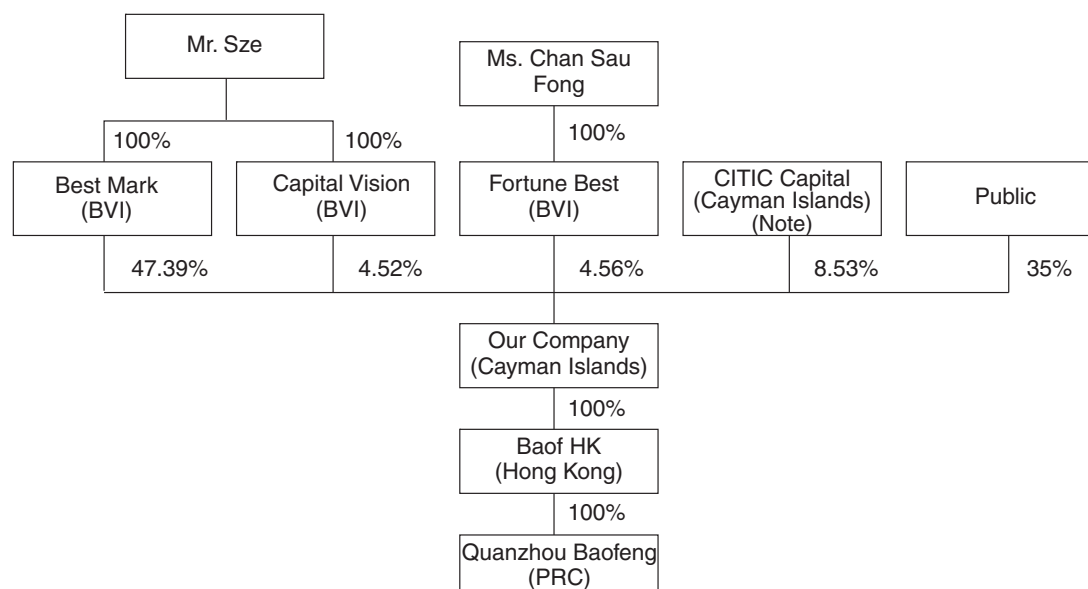
Set out below is the shareholding structure of our Group immediately following the Reorganisation and before the Global Offering and the Capitalisation Issue:



*Note:*

*The Company issued one preference share to CITIC Capital on 22 September 2008. Upon exchange of the 2008 Exchangeable Note, the Preference Share will be redeemed.*

The following diagram sets out the shareholding structure of our Group immediately after the Reorganisation, the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised:



*Note:*

*CITIC Capital will be treated as members of the public for the purpose of satisfying the minimum public float requirement under the Listing Rules.*

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## OUR BUSINESS

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### OVERVIEW

We are a leading supplier of slippers (including own-branded slippers) in the PRC. According to the Frost & Sullivan Report, we were the largest slipper supplier in the PRC based on revenue, production volume and sales volume in 2009 and for the six months ended 30 June 2010 and we were also the largest slipper supplier based on domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010.

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. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, the revenue derived from the sale of slippers accounted for approximately 96.7%, 96.0%, 95.0% and 97.7% of our total revenue, respectively. In addition to slippers, we also supply non-slipper footwear and accessories under our Boree brand so as to complement our product-portfolio and increase our revenue-generators.

We began our business as an OEM enterprise in 2001 and over the years, our OEM business has prospered. Revenue generated from our OEM business was approximately RMB409.2 million, RMB467.2 million and RMB467.9 million for each of the three years ended 31 December 2009, respectively. We maintained a steady growth in our OEM business for the nine months ended 30 September 2010, with a revenue from our OEM products of approximately RMB396.6 million for the nine months ended 30 September 2010, compared to approximately RMB333.3 million over the same period in 2009. We have a solid and broad OEM customer base and our OEM products come in a broad range of designs and styles, including slippers with cartoon characters to cater for children and the youth market. Our customers include licensees of companies which were on the Fortune Global 500 List for the year 2009. We have also cultivated long-term relationships with a number of our key OEM customers. As at 30 September 2010, four of our top five OEM customers had been our customers for five years or more.

We believe that we are well-positioned to keep abreast of the latest international trends in the slipper market as we produce a significant volume of exported products each year on an OEM basis. Our major export destination is the United States. However we also export a portion of our OEM products to South East Asia, Europe and South America. According to the Frost & Sullivan Report, we were the largest exporter of slippers in the PRC in 2009 and for the six months ended 30 June 2010 in terms of both export volume and revenue. Our market position as the leading exporter among local PRC slipper suppliers is fully attributable to our success in the OEM business.

Subsequently, in 2007, we began to shift our business focus towards developing a branded product business, based on our belief that it has a greater growth potential and that such positioning would differentiate us from our major competitors. We first launched the Boree brand as a brand for slippers with fashionable designs. We developed this brand as we were confident that our fashionable designs would be well-received by the medium-to-high end consumer market in the PRC. We subsequently launched the Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market. We developed this brand with a

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## OUR BUSINESS

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view to establishing a broad market coverage and catering for the growing demand for slippers in the PRC. Just as we had envisaged, the market did experience a growth in demand for slippers, in particular, slippers with fashionable designs. As a result, sales revenue of our branded products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately RMB120.6 million in 2009, representing a CAGR of approximately 145.0%. For the nine months ended 30 September 2010, sales revenue of our branded products was approximately RMB237.7 million, compared to approximately RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%.

Our Directors believe that we are well-positioned to capture the anticipated growth in the PRC slipper market through continued expansion of our branded product business. In the years to come, we will continue to strengthen our branded product business by leveraging on our experience in the OEM business whilst maintaining a steady growth in our OEM business.

Whilst our OEM products are generally sold to our OEM customers directly, our branded products are generally sold through an extensive and established network of distributors in the PRC. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, revenue from sales to our distributors accounted for approximately 4.7%, 6.4%, 20.5% and 37.5% of our total revenue, respectively. To the best knowledge and information of our Directors, as at the Latest Practicable Date, all of our distributors were Independent Third Parties. As at 30 September 2010, we had a total of 27 distributors. Among these distributors, there were 23 Boree brand distributors, 23 Baofeng brand distributors and 19 common distributors of both Boree and Baofeng brand products. As at 30 September 2010, our Boree brand products were sold to end consumers at no less than 524 Sales Points across 26 provinces, autonomous regions and municipalities in the PRC.

To maintain an image of our Boree brand that is consistent with its market positioning, we usually encourage our distributors to set up specialty stores or counters to sell our Boree brand products directly to end consumers. To the best knowledge and information of our Directors, as at 30 September 2010, most Boree brand products were sold directly to end consumers at specialty stores or concessionary counters that had been set up by our Boree brand distributors, whereas most Baofeng brand products were on-sold by our distributors to sub-distributors rather than directly to end consumers. However, a small portion of our Baofeng brand products were also sold by our common distributors at certain Boree Sales Points so as to complement the existing product offerings at those Sales Points. During the Track Record Period, save and except the World Expo Booth which was operated by us during May to October 2010, all Sales Points were operated by our distributors or other Independent Third Parties. Our Directors believe that our branded product business model provides us with a competitive edge in capturing business opportunities in the growing slipper market in the PRC as we are able to leverage on the management resources and local relationships of our distributors.

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## OUR BUSINESS

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We place a great emphasis on brand building and promoting our branded products. We use a variety of media, such as television, newspapers, magazines and internet to strengthen the recognition of our brands in the PRC. During the Track Record Period, as part of our marketing campaign, we engaged entertainment celebrity Ms. Jacqueline Li Xiao-lu (李小璐) to be the image and brand spokesperson for our Boree brand. We plan to continue in this direction in terms of our brand building and promotional strategy.

In 2010, we were selected to be a licensed manufacturer of slippers and a retailer of footwear products for the 2010 Shanghai World Expo. We believe that our corporate image has been enhanced as a result of the national and global media coverage presented by the 2010 Shanghai World Expo.

Furthermore, we, together with 中國皮革和製鞋工業研究院 (China Leather and Footwear Industry Research Institute\*), were responsible for drafting the National EVA Slipper and Sandal Industry Standard which was approved by National Development and Reform Commission of the PRC and promulgated in 2008. As such, we believe that we have established an indisputable standing in the PRC slipper market. Further, we believe that we are in an advantageous position to master the national manufacturing standard for EVA slippers set for the industry.

We manufacture footwear at our facilities in Quanzhou City, Fujian Province, the PRC. In 2009, we had a combined annual production capacity of approximately 50 million pairs of footwear. Our annual production volume for the year ended 31 December 2009 was approximately 39.8 million pairs of footwear. So as to equip our Group with sufficient production capacity to meet the requirements of a rapidly growing business and expected increase in orders, we plan to apply a portion of the proceeds from the Global Offering towards constructing new production facilities on the New Land and installing additional production lines at the Huoju Production Facility. Please see the sub-section headed “Our Business — Production — Our production facilities and capacities” in this prospectus for further details.

We experienced a significant growth in revenue during the Track Record Period, mainly due to the rapid growth in revenue from our branded products, which had significantly outpaced the growth in revenue from our OEM products. Due to our strategic decision to increase focus on our branded product business and an increase in market demand, our revenue from the sales of our branded products grew rapidly during the Track Record Period. Our total revenue for each of the three years ended 31 December 2009 was approximately RMB429.3 million, RMB499.3 million and RMB588.6 million, respectively, representing a CAGR of approximately 17.1%. Our total revenue for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB426.1 million and RMB634.3 million, respectively, representing an increase of approximately 48.9%. Our net profit for each of the three years ended 31 December 2009 was approximately RMB68.9 million, RMB58.2 million, RMB70.1 million, respectively. Our net profit for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB45.2 million and RMB104.5 million, respectively, representing an increase of approximately 131.2%.

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## OUR BUSINESS

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### OUR COMPETITIVE STRENGTHS

We believe that our success to date and our potential for future growth may be attributed to a combination of our competitive strengths set out as follows:

#### **A leading supplier of own-branded slippers in the PRC**

We are a leading supplier of own-branded slippers in the PRC. We developed two brands of our own, namely our Boree and Baofeng brands, in 2007 and 2009, respectively. Each of our two brands is driven by a unique marketing strategy. We position our Boree brand as a brand for slippers with fashionable designs, targeted at the medium-to-high end market. We position our Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market. According to the Frost & Sullivan Report, we were the largest slipper supplier based on domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010. According to the Frost & Sullivan Report, the growth in demand for slippers particularly for those with fashionable designs will continue and we believe that we will be able to reap the benefits of such growth through our Boree brand products.

We first launched the Boree brand as a brand for slippers with fashionable designs as we were confident that our fashionable designs would be well-received by the medium-to-high end consumer market in the PRC. Just as we had envisaged, the market did experience a high growth in demand for slippers, in particular, those with fashionable designs. As a result, sales revenue of our Boree brand products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately RMB85.9 million in 2009, representing a CAGR of approximately 106.7%. Further, sales revenue of our branded products was approximately RMB237.7 million for the nine months ended 30 September 2010, compared to RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%.

#### **Established long-term relationships with our OEM customers**

We manufacture footwear on an OEM basis for a broad customer base. Our customers include companies and/or licensees of companies which were on the Fortune Global 500 List for the year 2009. Revenue generated from our OEM business was approximately RMB409.2 million, RMB467.2 million and RMB467.9 million for each of the three years ended 31 December 2009, respectively. We maintained a steady growth in our OEM business for the nine months ended 30 September 2010, with a revenue of approximately RMB396.6 million, compared to approximately RMB333.3 million over the same period in 2009.

We have cultivated long-term relationships with a number of our key OEM customers. As at 30 September 2010, four of our top five customers had been our customers for five years or more. Our strong customer relationships have provided us with opportunities to interact and discuss with them which has allowed us to keep abreast of the latest fashion trends and to acquire the knowledge needed to design products with market appeal for our further business development.

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## OUR BUSINESS

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In 2010, we were also selected to be a licensed manufacturer of 2010 Shanghai World Expo Products. We created a series of designs based on the theme of the 2010 Shanghai World Expo and have been selling them to our distributors and also directly to consumers at the World Expo Booth. We believe that our corporate image has been enhanced as a result of the national and global media coverage presented by the 2010 Shanghai World Expo.

### **A leading role in the development of the manufacturing standard of slippers in the PRC**

We took an active role in setting the manufacturing standard of slippers in the PRC. We, together with 中國皮革和製鞋工業研究院 (China Leather and Footwear Industry Research Institute\*), were responsible for drafting the National EVA Slipper and Sandal Industry Standard. With the approval of the National Development and Reform Commission, the standard was promulgated in September 2008. EVA is generally known as foam rubber and is commonly used for manufacturing the sole of slippers due to its light weight, glossy finish, easy-to-mould and odorless qualities. We believe that as one of the drafters of the standard, we are in an advantageous position to master the national manufacturing standard for EVA slippers set for the industry. Further, our Directors believe that the approval of the standard by the National Development and Reform Commission of the PRC reflects their recognition of our knowledge and insight in the production of EVA slippers. We plan to leverage on such recognition to retain our stronghold in the slipper industry.

### **Largest slipper manufacturer with strong production capability**

Our production volume for each of the three years ended 2009 were approximately 32.0 million, 37.9 million, 39.8 million pairs of footwear, respectively. In 2009, we had a combined annual production capacity of approximately 50 million pairs of footwear. 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. According to the Frost & Sullivan Report, we were the largest slipper supplier in the PRC, based on both production volume and sales volume for the year ended 31 December 2009 and for the six months ended 30 June 2010.

Our production facilities are strategically located in Quanzhou City, Fujian province, the PRC which is considered to be a hub city of the PRC footwear industry, with many of our raw material suppliers located in close proximity. We have also developed long-term relationships with our key suppliers. We are able to maintain a low level of raw material inventory since our purchases are generally made as and when our manufacturing needs dictate. Further we are able to keep delivery time at a minimal since our raw material suppliers are close in proximity to our production facilities.

### **Access to an extensive and established distribution network**

Our branded products are generally sold through an extensive and established network of distributors. To the best knowledge and information of our Directors, as at the Latest Practicable Date, save as to their relationships with us as our distributors, these distributors were all Independent Third Parties and did not have any other past or present relationships



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## OUR BUSINESS

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with our Group, Shareholders, Directors, senior management or any associates respectively thereof. During the Track Record Period, save and except the World Expo Booth which was operated by us during May to October 2010, all Sales Points were operated by our distributors or other Independent Third Parties. As at 30 September 2010, we had a total of 27 distributors. Among these distributors, there were 23 Boree brand distributors, 23 Baofeng brand distributors and 19 common distributors of both Boree and Baofeng brand products. As at 30 September 2010, our Boree brand products were sold to end consumers at no less than 524 Sales Points across 26 provinces, autonomous regions and municipalities in the PRC.

To maintain an image of our Boree brand that is consistent with its market positioning, we usually encourage our distributors to set up specialty stores or counters to sell our Boree brand products directly to end consumers. To the best knowledge and information of our Directors, as at 30 September 2010, most Boree brand products were sold directly to end consumers at specialty stores or concessionary counters that had been set up by our Boree brand distributors, whereas most Baofeng brand products were on-sold by our distributors to sub-distributors rather than directly to end consumers. However, a small portion of our Baofeng brand products were also sold by our common distributors at certain Boree Sales Points so as to complement the existing product offerings at those Sales Points. We also collaborate closely with our distributors in developing a structured expansion plan by requiring each distributor to meet minimum purchase targets.

Sales revenue of our branded products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately RMB120.6 million in 2009, representing a CAGR of approximately 145.0%. For the nine months ended 30 September 2010, sales revenue of our branded products was approximately RMB237.7 million, compared to approximately RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%. We believe that our access to such an extensive and established distribution network has facilitated the rapid growth of our branded product business over the Track Record Period.

We believe that our branded product business model allows us to extend our geographical coverage in a short period of time with minimal capital requirements and operational risks. We are able to leverage on the management and local relationships of our distributors to oversee the operation of the Sales Points. As such, we are able to allocate more resources towards the promotional aspects of our branded product business.

### **Experienced and stable management team with in-depth insights**

Most of the members of our core management team have been with our Group for approximately ten years. In particular, our Chairman, Mr. Zheng Liuhe, was one of the main author of the National EVA Slipper and Sandal Industry Standard. Our Directors believe that the extent of growth in our revenue over the Track Record Period generally, and in particular, in the revenue derived from our Boree brand products, speaks convincingly of the strategic competence of our Directors and the efficacy of our management team in the execution of our business strategies.

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## OUR BUSINESS

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### OUR BUSINESS STRATEGIES

We will strategically work on securing our leading market position in the slipper market in the PRC and on becoming the leading supplier of own-branded slippers in other countries in Asia. We will continue to seek opportunities to realise sustainable growth in our business. Based on our innovation and strategy in the conceptualisation of our Boree and Baofeng brands, experienced management team, well-established relationships with our distributors and emphasis on quality control, our Directors believe that we are well-positioned to capture anticipated growth in the slipper market in the PRC. We intend to implement the following strategies to capitalise on our strengths so as to enhance our business prospects and profitability:

#### **Secure our leading position as a supplier of own-branded slippers in the PRC and increase recognition of our Boree and Baofeng brand names in other countries in Asia**

Our Directors believe that our market positioning and the images of our Boree and Baofeng brands are important to the development of our business in the PRC. According to the Frost & Sullivan Report, the PRC slipper industry is at the middle of a growth stage. Consumers' awareness of slipper brands is low and the focus of the competition is gradually shifting from price to design and quality of slippers. For this reason, our Directors believe that strengthening our branded product business is crucial to securing our market position in the PRC. In particular, we will strive to secure our position as a leading supplier of own-branded slippers in the PRC and to explore opportunities to establish a market presence in other countries in Asia. Given the success of the Boree brand since its introduction, we will continue to promote this brand and to secure its identity as a brand which places emphasis on fashion and trends and is targeted at the medium-to-high end market. We also plan to diversify our consumer market base through our Baofeng brand products which are designed to cater for all ages in the budget-to-medium end market. The ultimate aim of our branding strategy is to secure our leading position in the PRC slipper industry and to advance public recognition of our branded products for their respective unique identities not only in the PRC but also progressively in other countries in Asia.

We intend to continue with a number of existing marketing strategies, including our strategy of engaging entertainment celebrities who reflect the image of our brands and who are popular in Chinese-speaking communities to be our spokespersons. We will also continue to sponsor promotional events when suitable opportunities arise and maintain our market visibility through participating in exhibitions. In addition to advertisements on billboards, we will also continue to advertise our brands on television and fashion magazines. We believe in the importance of adopting effective marketing strategies as a means of increasing the recognition of our brand names so as to secure sustainable growth in the long-run.

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## OUR BUSINESS

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### **Continue to explore expansion opportunities**

We intend to expand our geographical coverage and increase market penetration in existing markets, through, amongst others, the following avenues:

- working closely with our distributors and imposing an annual minimum purchase amount in our distributorship agreements;
- encouraging and facilitating our distributors to set up flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong; and
- expanding our sales team to enhance marketing management and service support.

In addition to expanding our geographical coverage and increasing market penetration in the PRC slipper market, we believe that there are attractive sales opportunities elsewhere. We therefore intend to leverage on the reputation of our brands in the PRC to further expand our market coverage abroad. We plan to explore growth opportunities in Asia and other overseas markets where we believe that our products will be competitive. In particular, we plan to establish a market presence in Philippines and then in Indonesia over the next few years. We plan to do so through forming licensing arrangements and/or by establishing project companies with locals there so that we may leverage on their existing management resources, knowledge of the local slipper markets and established local relationships.

We also intend to achieve business expansion through strategic acquisitions when suitable opportunities arise. We may consider acquiring a well-established footwear business. Our Directors will be very selective in the process and will strategically consider a range of matters including the potential target's product offerings, sale channels, shareholding structure and financial conditions. As at the Latest Practicable Date, we have not identified a suitable target for acquisition.

### **Strengthen our information systems technology so as to increase our ability to monitor the performance of our distributors**

We believe that a comprehensive information system is important to R&D, supply chain management, quality and inventory control, logistics and sales. In particular, we believe that an information system that allows us to monitor and track the inventory of our distributors and at the various Sales Points is crucial to our ability to monitor the performance of our distributors. In 2010, we upgraded our ERP System which has linked up our procurement, production, inventory, sales and financing systems.

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## OUR BUSINESS

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In addition, we have also commenced to install a DRP System in June 2010 at various Boree Sales Points to allow us to track inventory levels in a real-time environment and forecast demand for our products across these Boree Sales Points. We expect to be able to plan our production levels more effectively based on such information. Our R&D department will also be able to analyse such information to gain a better understanding of consumer demand patterns and preferences and create product designs accordingly. Our Directors believe that keeping our product designs in pace with consumer demand and preferences will help us maintain a competitive edge.

As at the Latest Practicable Date, the DRP System was installed at 116 Boree Sales Points located in various provinces, districts and municipalities in the PRC, including, among others, Fujian, Dongguan, Heilongjiang, Jilin, Liaoning, Shanghai, Zhejiang, Jiangsu, Beijing and Hubei. All of these Boree Sales Points are operated by our distributors. We will continue to closely monitor the performance of our distributors by extending the coverage of our DRP system to as many Boree Sales Points as practicable and by upgrading our information systems from time to time.

### **Strengthen our design capability**

We believe the success of our products depends on our ability to produce a wide variety of designs based on the latest fashion trends. Further, in April 2010, we entered into a co-operative agreement with an external research centre in Dongguan for a term of five years, pursuant to which it will provide not less than 1,000 slipper designs to us for our selection each year. Our Directors believe that it will be able to offer us designs which will be of quality and will be popular in the market.

We organised a slipper design competition via a website "[www.NewWebPick.com](http://www.NewWebPick.com)" which proved to be a success in 2009. As the competition proved to be a success we held a similar slipper design competition known as “**翱逐天下**” (BaoF Cup No.2 - Fashion Your Step) in 2010. We plan to use these opportunities to gather innovative designs from around the world and to boost our corporate image as one that values innovation and design capability. We will attempt to increase the publicity of these events through media coverage to announce the winning designs.

To add a further international perspective to our designs, we also engaged an external design house in Italy to create footwear prototypes for our selection, and then create designs for every selected footwear prototype. We believe that we will be able to gain access to their first-hand knowledge of the latest global fashion trends. For more information on our design capability, please see the sub-section headed “Research, Development and Design” in this section of the prospectus. We believe that strengthening our design capability must go hand-in-hand with our plan to shift our business focus towards developing our branded product business so as to ensure that our product designs will continue to be popular in the PRC.

## OUR BUSINESS

### Continue to expand and improve on our production capability

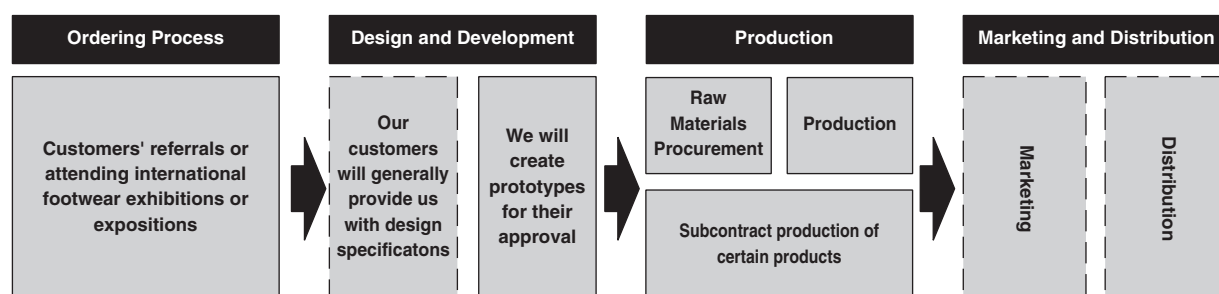
According to the Frost & Sullivan Report, the growth in the PRC slipper market is expected to continue in the near future. The utilisation rate of our production facilities for the nine months ended 30 September 2010 was approximately 77.9%. However, our production capacity reached full utilisation for a few months of each year during the Track Record Period due to the effects of seasonality in the demand for slippers. In light of the above, our Directors consider that there is a pressing need to increase our production capacity to prepare for the anticipated increase in demand for slippers and to minimise the risk of losing potential sales opportunities during peak seasons.

Conditional upon obtaining approval(s) from the relevant governmental authorities, we plan to apply 35% of the proceeds from the Global Offering and a portion of our working capital, if necessary, towards constructing new production facilities on the New Land and installing additional production lines at the Huoju Production Facility. Phase 1 of the construction project is scheduled for completion in April 2012 and Phase 2 is scheduled for completion in November 2016. Upon completion of the construction project on the New Land, the maximum annual production capacity that can be supported by our new production facilities is expected to be approximately 94 million pairs of footwear, wherein the production facilities built in Phase 1 can support a maximum annual production capacity of approximately 47 million pairs of footwear and Phase 2 can support a maximum annual production capacity of approximately 47 million pairs of footwear. We will install additional production lines at our new production facilities in accordance with our production capacity needs, which will be assessed by our management team from time to time. With our developing competitive edge in our branded product business, our Directors believe that additional production capacity will be required to meet the expected growth in demand for our slippers. For further details in relation to the expansion of our production facilities, please see the sub-section headed “Production — Our production facilities and capacities” in this section of the prospectus.

### OUR BUSINESS MODELS

#### OEM Business Model

The following diagram illustrates our current OEM business model:



*Note: Components of our business model diagram indicated by solid lines represent those aspects of the value chain controlled by us, while those components indicated by dotted lines represent those not controlled by us.*

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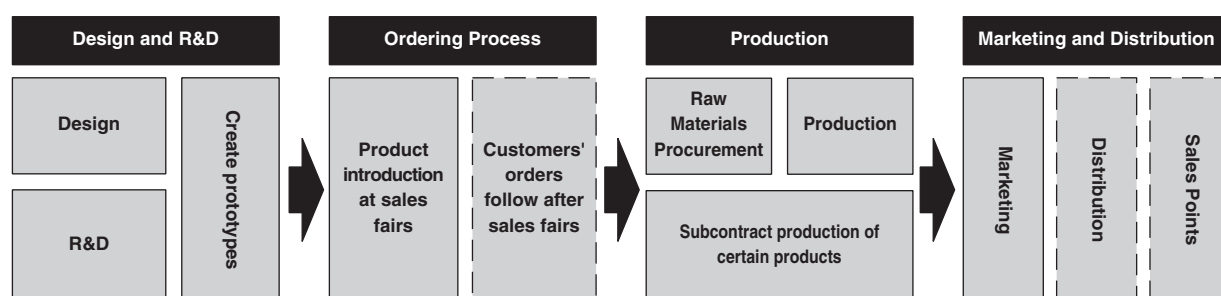
## OUR BUSINESS

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Under our OEM business model, we generally manufacture products based on our customers' designs and specifications. Usually, we will first create a prototype for our customers' approval before commencing mass production. We are generally responsible for procuring the necessary raw materials including components, manufacturing the products or occasionally subcontracting the production of certain products to third-party sub-contractors. We will also co-ordinate the delivery of products to our OEM customers.

### Branded Product Business Model

The following diagram illustrates our current business model for our branded product business:



*Note: Components of our business model diagram indicated by solid lines represent those aspects of the value chain controlled by us, while those components indicated by dotted lines represent those not controlled by us. However, we enter into a distributorship agreement with each of our distributors which is renewed annually and we rely on the conditions and restrictions set out in these distributorship agreements as a means to manage our distributors. Please see the sub-section headed "Sales and Distribution — B. Branded Product Sales — Distributorship Agreements" in this section of the prospectus for further details.*

Under our branded product business model, we are generally responsible for the design and R&D aspects of our products. We also work with external research centres or design houses to gather innovative product designs and materials. We will then create prototypes of our products and showcase them in our seasonal sales fairs. Our distributors will generally place orders with us after a sales fair. We are generally responsible for procuring the necessary raw materials, manufacturing the products or subcontracting the production of certain products to third-party sub-contractors. We will generally co-ordinate the delivery of products to our distributors. To the best of knowledge and information of our Directors, our distributors will generally sell our products directly to end consumers at various Sales Points or on-sell them to sub-distributors and/or third-party retailers.

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## OUR BUSINESS

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### PRODUCTS AND BRANDS

We are primarily engaged in the production of slippers. To complement our product portfolio, we also offer a small portion of non-slipper footwear and accessories.

Below are the principal products we offer:

#### *Slippers*



#### *Non-slipper footwear*



## OUR BUSINESS

The table below sets out a breakdown of our revenue by product segments for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Percentage of Total Revenue		Percentage of Total Revenue		Percentage of Total Revenue		Percentage of Total Revenue		Percentage of Total Revenue	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>FOOTWEAR</b>										
- Slippers	415,021	96.7	479,025	96.0	558,896	95.0	415,365	97.5	619,494	97.7
- Non slipper footwear	13,767	3.2	18,721	3.7	27,836	4.7	9,559	2.2	14,176	2.2
<b>Sub-total</b>	<u>428,788</u>	<u>99.9</u>	<u>497,746</u>	<u>99.7</u>	<u>586,732</u>	<u>99.7</u>	<u>424,924</u>	<u>99.7</u>	<u>633,670</u>	<u>99.9</u>
<b>ACCESSORIES</b>	508	0.1	1,518	0.3	1,820	0.3	1,139	0.3	637	0.1
<b>TOTAL</b>	<u>429,296</u>	<u>100.0</u>	<u>499,264</u>	<u>100.0</u>	<u>588,552</u>	<u>100.0</u>	<u>426,063</u>	<u>100.0</u>	<u>634,307</u>	<u>100.0</u>

Notes:

- (1) The breakdown by production segments for each of the three years ended 31 December 2009 and the nine months ended 30 September 2009 and the total revenue for the nine months ended 30 September 2009 are prepared based on the unaudited management records of our Group.
- (2) Accessories refer to bags.



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## OUR BUSINESS

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### Our OEM products

We manufacture footwear on an OEM basis for companies and/or licensees of companies some of which were on the Fortune Global 500 List for the year 2009. Some of our OEM products have cartoon characters to cater for the preferences of children and the youth market, whilst others cater for the wider consumer market. In response to the request of an OEM customer, we also supply a small portion of bags on an OEM basis. We subcontracted the production of all bags to sub-contractors. In addition, in 2010, we were selected to be a manufacturer of slippers and a retailer of footwear products for the 2010 Shanghai World Expo. As a licensed manufacturer, we are licensed to design and manufacture licensed slippers bearing the trademark of the 2010 Shanghai World Expo. We generated a total revenue of RMB17.6 million for the nine months ended 30 September 2010. In November 2010, we received an award in recognition of the quality of our 2010 Shanghai World Expo Products issued by 上海世博會事務協調局 (Bureau of Shanghai World Expo Coordination\*).

Most of our OEM products are manufactured based on the designs and specifications of our OEM customers. We believe that our experience in the OEM business allows us to keep abreast of the latest fashion trends and therefore gives us a competitive advantage in our design capability. Given our wealth of experience in the OEM business and established OEM customer base, we plan to continue with steady development in our OEM business as we pursue expansion in our branded product business.

### Our branded products

Leveraging on our success in the OEM business model, we introduced two brands of our own, namely our Boree and Baofeng brands, in 2007 and 2009, respectively. Our Directors believe that our OEM business complements our branded product business as it enables us to keep abreast of the latest international fashion trends and international quality control standards. We believe that we are therefore well-positioned to enter the premium slipper market and are able to utilise such knowledge and experience by applying them to the expansion of our branded product business. In January 2011, we received an award which recognised our Boree brand as one of top ten slipper brands in the PRC slipper and sandal industry issued by 皮革和製鞋行業生產力促進中心 (Leather and Footwear Industry Productivity Enhancement Centre\*), 全國製鞋工業信息中心 (National Footwear Industry Information Centre\*), 國家鞋類質量監督檢驗中心 (National Quality Supervision and Inspection Centre of Footwear\*) and 國家皮革製品質量監督檢驗中心 (National Quality Supervision and Inspection Centre of Leather Goods\*). In the years to come, we will continue to work on increasing the recognition of our brand names in the PRC and in other countries in Asia.

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## OUR BUSINESS

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Each of our two brands is driven by a unique marketing strategy. We position our Boree brand as a brand for slippers with fashionable designs, targeted at the medium-to-high end market. A majority of our Boree brand distributors sell our products in specialty stores or concessionary counters in department stores and shopping malls. We position our Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market and are mainly sold in supermarkets and footwear stores.

The following table sets forth the style as well as the target markets of our brands, which we evaluate on a regular basis.

Brand	Year of launch	Product style	Target market
Boree	2007	Fashionable	Medium-to-high end market
Baofeng	2009	Traditional	Budget-to-medium market

### ***Boree***

Our Boree brand principally offers slippers with fashionable designs targeted at women between 18 to 40 years of age. Our Boree brand products are divided into spring/summer collections and autumn/winter collections to cater for different weather conditions. We have also created theme-oriented collections within our Boree brand to add variety to our product offerings. Some major examples of our collections include:

#### ***Summer/Spring Collections***



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## OUR BUSINESS

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### *Autumn/Winter Collections*



### *Crossover Shoe Series (跨界鞋系列)*

#### Crossover Shoes Series (跨界鞋系列)

This series is based on a winning design from a participant of the competition known as “設計在我腳下 - 寶人杯全球跨界鞋設計大賽” (“Under The Feet - BaoF Cup Design Challenge Competition of Crossover Shoes”) held via the website “[www.NewWebPick.com](http://www.NewWebPick.com)”. Crossover shoes are multi-purposes slippers (fully-covered at the front with no covering of the ankle area) which are suitable for home use and outdoor activities.



*Crossover shoes  
Designer: SL Design from Portugal*

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## OUR BUSINESS

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### ***Baofeng***

Our Baofeng brand offers traditional slippers that come in various designs and generally cater for budget-to-medium market. We have created different series of Baofeng brand slippers with catchy names. These include:

- Bubble slippers (泡泡拖) - These are flip-flops with a rippled surface on the insole designed to have a massaging function. Small holes are also created in the soles enabling the slippers to dry speedily in wet conditions. These slippers are suitable for home or informal occasions. They are targeted at the youth market.
- Cartoon slippers (卡卡拖) - These are flip-flops or cross strap slippers printed with cartoon characters targeted at children and the youth market. These slippers are suitable for daily wear at home or on casual outings.
- Tall slippers (高高拖) - These are platform slippers targeted at the young ladies market. These slippers are designed with wide shoe soles that support the entire area of each foot to ensure comfort. As such, they are able to achieve the aesthetic purpose of high heels without a corresponding sacrifice to comfort.
- Grassy slippers (草草拖) - These are flip-flops or cross strap slippers with a straw mat lining on the sole. They are suitable for wearing in summer and especially at the beach.



*Bubble Slippers*



*Cartoon Slippers*



*Tall Slippers*



*Grassy Slippers*

## OUR BUSINESS

During the Track Record Period, we also sold and marketed a small portion of bags under our Boree brand. We subcontracted the production of all bags to sub-contractors. We plan to build on the success of our branded product business by launching new products to complement our existing product portfolio. We believe that by offering a wider product range, we will be able to capture additional market segments, which will facilitate in strengthening the recognition of our brands.

### SALES AND DISTRIBUTION

Our business is divided between OEM sales and branded product sales. During the Track Record Period, OEM sales represent a major proportion of our total revenue. In recent years, our branded product sales have also increased rapidly. According to the Frost & Sullivan Report, we were the largest slipper supplier based on domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010. With one of our main business strategies set at expanding our branded product business, our Directors believe the revenue contribution from our branded product sales will continue to increase in the future.

The table below sets out a breakdown of our revenue and gross profit margin by OEM and branded products for the periods indicated:

	For the year ended 31 December									For the nine months ended 30 September					
	2007			2008			2009			2009			2010		
	Revenue	Percentage of total revenue	Gross profit margin	Revenue	Percentage of total revenue	Gross profit margin	Revenue	Percentage of total revenue	Gross profit margin	Revenue	Percentage of total revenue	Gross profit margin	Revenue	Percentage of total revenue	Gross profit margin
	RMB' 000	%	%	RMB' 000	%	%	RMB' 000	%	%	RMB' 000	%	%	RMB' 000	%	%
	(Unaudited)														
<b>OEM PRODUCTS</b>	409,195	95.3	23.9	467,246	93.6	25.5	467,908	79.5	25.3	333,316	78.2	23.1	396,639	62.5	29.6
<b>BRANDED PRODUCTS</b>															
- Boree	20,101	4.7	33.1	32,018	6.4	35.8	85,860	14.6	41.5	64,739	15.2	41.8	170,049	26.8	42.2
- Baofeng	—	—	—	—	—	—	34,784	5.9	32.0	28,008	6.6	31.2	67,619	10.7	38.1
Sub-total	20,101	4.7	33.1	32,018	6.4	35.8	120,644	20.5	38.8	92,747	21.8	38.6	237,668	37.5	41.0
<b>TOTAL:</b>	<u>429,296</u>	<u>100.00</u>	<u>24.4</u>	<u>499,264</u>	<u>100.00</u>	<u>26.2</u>	<u>588,552</u>	<u>100.00</u>	<u>28.1</u>	<u>426,063</u>	<u>100.0</u>	<u>26.5</u>	<u>634,307</u>	<u>100.0</u>	<u>33.9</u>

*Note: Revenue of our OEM sales for the nine months ended 30 September 2010 include sales of 2010 Shanghai World Expo Products of approximately RMB17.6 million.*

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As we only commenced our branded product business in 2007, most of our revenue for each of the three years ended 31 December 2009 and nine months ended 30 September 2010 were derived from OEM sales. Nevertheless, the percentage of the revenue derived from our branded product sales has increased rapidly from approximately RMB20.1 million, comprising approximately 4.7% of our total revenue, in 2007, to approximately RMB32.0 million, comprising approximately 6.4% of our total revenue, in 2008, and to approximately RMB120.6 million, comprising approximately 20.5% of our total revenue, in 2009, respectively. Revenue derived from our branded product sales also increased from approximately RMB92.7 million, comprising approximately 21.8% of our revenue, for the nine months ended 30 September 2009 to approximately RMB237.7 million, comprising approximately 37.5% of our total revenue, for the nine months ended 30 September 2010.

### Geographical analysis

The table below sets out a breakdown of our revenue by reference to the geographical locations of our customers for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(Unaudited)</i>									
PRC (principal place of operations)*	276,458	64.4	290,907	58.3	436,933	74.2	314,185	73.7	528,546	83.3
United States**	125,618	29.3	185,294	37.1	130,950	22.3	95,473	22.4	85,203	13.4
South East Asia**	8,840	2.1	7,725	1.5	5,374	0.9	4,775	1.1	5,555	0.9
Europe**	8,003	1.9	5,471	1.1	3,990	0.7	2,926	0.7	1,575	0.2
South America**	2,580	0.6	3,093	0.6	2,577	0.4	2,315	0.5	7,413	1.2
Other countries**	7,797	1.7	6,774	1.4	8,728	1.5	6,389	1.6	6,015	1.0
Total:	<u>429,296</u>	<u>100</u>	<u>499,264</u>	<u>100</u>	<u>588,552</u>	<u>100</u>	<u>426,063</u>	<u>100</u>	<u>634,307</u>	<u>100</u>

\* Revenue was generated from our OEM products and branded products. To the best knowledge and information of our Directors, some of the OEM products sold to our customers in the PRC were ultimately exported overseas.

\*\* Revenue was generated from OEM products.

We derived approximately 64.4%, 58.3%, 74.2% and 83.3% of our total revenue from the PRC for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010.

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## OUR BUSINESS

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### Our customers

Our top five customers collectively accounted for approximately 69.5%, 49.0%, 39.0% and 26.1%, of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively. Our largest customer for each of the same periods accounted for approximately 24.1%, 17.4%, 13.9% and 9.9%, of our total revenue, respectively. Our distributors are responsible for distributing our branded products. In 2010, they also distributed a portion of our 2010 Shanghai World Expo Products. In terms of our branded product sales, for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, aggregate revenue of our top five distributors accounted for approximately 1.5%, 4.4%, 8.0% and 16.5% of our total revenue, respectively. Our largest distributor accounted for approximately 0.4%, 1.4%, 2.0% and 3.7% of the total sales revenue of our branded products for each of the same periods, respectively. None of our Directors, our chief executive or any person who, to the best knowledge and information of our Directors, owned more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our Group's top five customers during the Track Record Period. As we increase our focus on marketing and promoting our brands, we anticipate that our customer base will become more diversified in the future.

### A. OEM sales

#### Overview

We began our business as an OEM enterprise in 2001. In 2002, we were recognised as a 自營出口超百萬美元創匯大戶 (Significant Generator of Foreign Exchange in excess of US\$1 million from Export Trade\*). In 2003, we were recognised as one of the 省級重點鄉鎮企業 (Key Township Enterprises in Fujian Province\*) for the year 2003 by 福建省鄉鎮企業局 (Ministry of Township Enterprises of the Fujian Province\*). In 2004 we were recognised as one of the 中國製造業1,000家最具成長性中小企業 (Top 1,000 Fastest Growing Medium and Small Manufacturing Enterprises in China\*) by 中國中小企業國際合作協會 (China International Cooperation Association of Small and Medium Enterprises) and 國家統計局工業交通統計司 (Department of Industries and Transportation of the PRC Ministry of Statistics\*). Our OEM business has remained strong ever since.

According to the Frost & Sullivan Report, we ranked first in terms of export volume in the PRC for the year ended 31 December 2009 and the six months ended 30 June 2010. Our leading position in terms of exports amongst PRC slipper suppliers is fully attributable to the success in our OEM business. Our major export destination is the United States. However we also export a portion of our OEM products to South East Asia, Europe and South America.

Our export sales volume for each of the three years ended 31 December 2009 was approximately 13.9 million, 20.1 million, 14.3 million pairs of slippers, respectively and our export sales volume for each of the nine months ended 30 September 2009 and 2010 was approximately 9.8 million and 9.1 million pairs of slippers, respectively.

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Revenue from the sale of our OEM products had increased steadily during the Track Record Period. For each of the three years ended 31 December 2009, revenue derived from OEM business was approximately RMB409.2 million, RMB467.2 million and RMB467.9 million, respectively, representing a CAGR of approximately 6.9%. We maintained a steady growth for the nine months ended 30 September 2010, with a revenue of approximately RMB396.6 million, compared to approximately RMB333.3 million over the same period in 2009, representing an increase of approximately 19.0%.

Furthermore, the gross profit margin of our OEM products sustained an overall increase during the Track Record Period. For each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, the gross profit margin for our OEM products was approximately 23.9%, 25.5%, and 25.3% and 29.6%, respectively. There was a slight increase in our gross profit margin of our OEM products from 2007 to 2008, primarily due to an increase in bulk purchases. There was no material fluctuation in our gross profit margin of our OEM products from 2008 to 2009. The increase in our gross profit margin for the nine months ended 30 September 2010 was mainly attributable to the shift in our business focus towards our branded product business as a result of which our Directors tended to select some of the more profitable OEM orders for production.

We generally obtain OEM orders mainly by customers' referrals and participating or attending international footwear exhibitions or expositions. We generally sell our OEM products to our OEM customers directly. We do not have long-term purchase commitments with our OEM customers and our sales are made on the basis of individual purchase orders. Our top five OEM customers contributed to a significant portion of our total revenue during the Track Record Period. Our top five OEM customers for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 were companies that primarily engaged in the distribution or sale of footwear and/or other products, and trading companies that traded in footwear and other products. Our customers include a chain store giant from whom we have been obtaining orders since 2004 and a licensed distributor of a leading diversified international family entertainment and media enterprise from whom we have been obtaining orders since 2009. This enterprise has been engaged in the business of selling products featuring certain popular cartoon characters for many years. Both the chain store giant and the enterprise were on the Fortune 500 List in 2009.

When we first began our OEM business in 2001, we strived to establish a presence in the PRC slipper market and were therefore keen to accept as many orders as our production capacity allowed. We are now the leading supplier of slippers in the PRC. Hence, in recent years, we have been shifting our business focus towards developing our branded product business. As we anticipated that the increase in demand for our branded products would impose a significant burden on our production capacity during peak seasons, we decided to be more selective in the OEM orders that we accepted during peak seasons when our production facilities were operating at or close to full capacity. In particular, we tended to select some of the more profitable OEM orders for production so that we could maximise the profitability of our business with our given production capacity. We plan to maintain steady growth in our OEM business as we pursue expansion in our branded product business.



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### ***Pricing***

In our OEM pricing policy, we take into account various factors such as our cost of sales, purchasing power of consumers and general economic conditions in the PRC and our export destinations abroad.

The profitability of our OEM products depends to a large extent on the price competitiveness of our products. In order to maintain our competitiveness, we set the price of our OEM products based on the cost of raw materials and the expected profit margin on individual products determined by our management team.

### ***Credit policy***

We generally provide credit periods of up to three months for our OEM customers. We may extend a credit period based on the credit history and historical sales performance of our OEM customers. We may also extend a credit period based on individual circumstances including our evaluation of the credit-worthiness of our OEM customers.

It is our policy to review overdue balances and our receivable balances on an ongoing basis and appropriate assessment is made by our management team to determine whether or not provision for impairment of trade receivables should be made. For details of our policy on provision for impairment, please see the sub-section “Financial Information — Trade and Other Receivables Analysis” in this prospectus.

### ***Sales return and exchange of goods policies***

Our sales return policies only permit our OEM customers to return defective products where we are responsible for such defects. As confirmed by our Directors, we did not receive any return or exchange requests from our OEM customers during the Track Record Period.

### **B. Branded product sales**

Substantially all of our branded products are sold as outright sales to our distributors. Revenue generated from sales to our distributors is recognised when the products have been delivered and title has passed. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, revenue from sales to our distributors accounted for approximately 4.7%, 6.4%, 20.5% and 37.5% of our total revenue, respectively. Our distributors are principally responsible for overseeing the operation of their respective Sales Point networks. Under our current branded product business model, we believe that we are able to leverage on the management resources and local relationships of our distributors to assist in the expansion of our branded product business and for overseeing the operations of the Sales Points. We further believe that this model enables us to cater for the increasing market demand for branded slippers in the PRC by allowing us to focus on promoting our brand product business. Our brands are sold through different sales channels as described below.

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### ***Sales channel for our Boree brand products***

We position Boree brand products as fashionable products, targeted at the medium-to-high end market. Boree brand products generally have higher retail prices. To maintain an image of the Boree brand that is consistent with its market positioning, we encourage Boree brand distributors, either by themselves or through third parties, to set up specialty stores or counters, which are generally located in department stores and shopping malls for selling Boree brand products with a consistent store layout. To the best knowledge and information of our Directors, as at 30 September 2010, most Boree brand products were sold at such specialty stores or concessionary counters. To the best knowledge and information of our Directors, as at 30 September 2010, a small portion of our Baofeng brand products were also sold by our common distributors at certain Boree Sales Points so as to complement the existing product offerings at those Sales Points.

### ***Sales channel for our Baofeng brand products***

We position Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium end market. Baofeng brand products generally have lower retail prices. To the best knowledge and information of our Directors, as at 30 September 2010, most Baofeng brand products were on-sold by the relevant distributors on a wholesale basis to sub-distributors rather than directly to consumers and ultimately most Baofeng brand products were sold to end consumers by various third-party retailers.

### ***Internet sales***

Since 2009, a small proportion of our branded products has been sold via our website or other internet platforms. For the year ended 31 December 2009 and the nine months ended 30 September 2010, approximately RMB129,804 and RMB73,279, respectively, was attributable to sales of our branded products via the internet. These sales accounted for approximately 0.02% and 0.01%, respectively, of our total revenue for the same periods. Save that certain requisite filings under PRC regulations had not been made by Quanzhou Baofeng for sales via our website until 22 October 2009, we have been in compliance with the relevant PRC laws and regulations regarding our internet sales. According to our PRC Legal Advisers, a penalty of RMB10,000 may be imposed on us by the relevant PRC authorities for not having made such requisite filings. However, according to our PRC Legal Advisers, the probability that the PRC authorities will impose such a penalty on us is low as they had accepted the filings made by Quanzhou Baofeng without imposing any penalty on us at the time of filing. In any event, our Controlling Shareholders have agreed to indemnify us for all losses arising therefrom.

### ***Distribution Model***

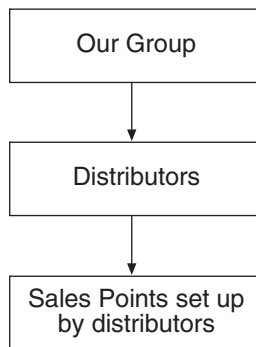
To the best knowledge and information of our Directors, the following chart illustrates the current major distribution models of our Boree and Baofeng brand products, respectively.

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## OUR BUSINESS

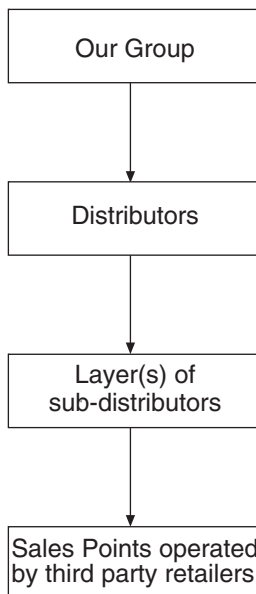
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### ***Boree brand products***



*Note: To the best information and knowledge of our Directors, (1) some of our Boree brand products were also on-sold to sub-distributors and/or third-party retailers during the Track Record Period; and (2) these sub-distributors and third-party retailers are corporate entities or individuals.*

### ***Baofeng brand products***



*Note: Some of our common distributors may also sell a portion of our Baofeng brand products at certain Boree Sales Points.*

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### ***Distribution network***

As at 31 December 2007, 2008, 2009 and 30 September 2010, we engaged 33, 11, 31 and 27 distributors primarily for the sale of our branded products. Among our distributors as at 30 September 2010, there were 23 Boree brand distributors, 23 Baofeng brand distributors and 19 common distributors of both Boree and Baofeng brand products. An individual overseeing one or more designated area(s) through different companies is treated as one distributor. As at 30 September 2010, our Boree brand products were sold to end consumers at no less than 524 Sales Points across 26 provinces, autonomous regions and municipalities in the PRC. Except for Fujian Province where we had two Boree brand distributors, all the Boree Sales Points in a particular district were overseen by one Boree brand distributor.

As at 30 September 2010, there were no less than 524 Sales Points across various 26 provinces, autonomous regions and municipalities in the PRC, details of which are set out in the table below.

	District	Number of Sales Points
East China	Shanghai	21
	Jiangsu	50
	Zhejiang	15
	Anhui	1
	Shandong	14
	Jiangxi	4
	Fujian (Xiamen, Quanzhou and Zhangzhou)	37
	Fujian (districts other than Xiamen, Quanzhou and Zhangzhou)	38
South China	Guangdong	104
	Hainan	11
	Guangxi	4
West China	Sichuan	25
	Yunnan	16
	Shaanxi	48
	Ningxia	2
	Gansu	1
	Xinjiang	4
	Chongqing	3

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	District	Number of Sales Points
North China	Beijing	28
	Liaoning	49
	Jilin	3
	Heilongjiang	4
	Shanxi	7
	Hebei	2
Central China	Henan	5
	Hunan	14
	Hubei	<u>14</u>
<b>Total</b>		<u><u>524</u></u>

### ***Our distributors***

Generally, we meet potential distributors through our sales fairs. On these occasions, we would usually take the opportunity to introduce them to our new products by allowing them to review our new products' prototypes. Orders for our products from these distributors would generally follow after these sales fairs. Our distributors are comprised of corporate entities and individuals. To the best knowledge and information of our Directors, as at the Latest Practicable Date, save as to their relationships with us as our distributors, all of our distributors were Independent Third Parties and did not have any other past or present relationships with our Group, shareholders, Directors, senior management or any associates respectively thereof.

During the Track Record Period, save and except the World Expo Booth which was operated by us during May to October 2010, we did not own or operate any Sales Points ourselves. Mr. Zheng Guozhang acted as the legal representative of a Sales Point from 29 July 2009 to 31 March 2010 at the request of a former distributor who was responsible for overseeing the relevant Sales Point. The former distributor made such a request as the lessor of the Sales Point (a reputable supermarket in the PRC) indicated a preference for Mr. Zheng Guozhang to be the signing party to the lease agreement in respect of the Sales Point. The lessor indicated such a preference based on the fact that Mr. Zheng Guozhang was the person who had introduced the former distributor to him. As Mr. Zheng Guozhang was required to be the legal representative of the Sales Point before he could sign the lease agreement, he agreed to assume such a position at the request of the former distributor. Mr. Zheng Guozhang has never taken part in the operation or management of the relevant Sales Point. Based on a confirmation provided by the former distributor, our Directors believe that the sales revenue at the relevant Sales Point during July 2009 to March 2010 was minimal.

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The following table sets out the movements in the total number of distributors of both our Boree and Baofeng brand products during the Track Record Period (*Note*):

	For the year ended 31 December			For the nine months ended 30 September
	2007	2008	2009	2010
Additions	33	10	22	10
Terminations	—	32	2	14
Total number of distributors	33	11	31	27

*Note: An individual overseeing one or more designated area(s) through different companies is treated as one distributor.*

In 2007, most of our distributors were responsible for operating one Sales Point each. There were 27 distributors located in Fujian Province alone and six other distributors in various other provinces in the PRC. As part of our strategy to achieve market penetration with minimal capital outlay, we adopted a different approach in 2008 by allowing each of our distributors to oversee all the Sales Points within a specified designated area. As a result, in 2008 we ceased our engagement with nearly all of our distributors by choosing not to renew our distributorship agreements with them. At the same time, we also engaged other distributors who we believed had the resources and skills to oversee the operations of all the Sales Points within a specified designated area. Such designated areas were demarcated by provinces, autonomous regions and municipalities with the exception of Fujian Province, which was further demarcated into two designated areas by reference to districts within the province.

From 2008 to 2009, the number of distributors increased significantly as we decided to engage additional distributors to facilitate the expansion of our branded product business. In particular, we decided to engage distributors who were based in areas where a Sales Point was yet to be established so that we could extend our geographical coverage. From 2009 to the nine months ended 30 September 2010, the number of distributors experienced a slight decline. The primary reason for the slight decline in the number of distributors was because on one hand we discovered that some existing distributors were unable to meet our performance expectations as a result of which we decided not to renew our distributorship agreements with them while on the other hand we decided to engage more distributors to facilitate the growth of our branded product business. As at 30 September 2010, we had 27 distributors covering 26 provinces, autonomous regions and municipalities in the PRC.

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We generally maintain good relationships with our distributors. During the Track Record Period, we have not had any disputes nor were we a party to any legal or arbitration proceedings with any of our distributors. As at 30 September 2010, the length of our relationships with our distributors during the Track Record Period ranged from approximately three months to three years. As at 30 September 2010, the length of relationships with our top five distributors was similar during the Track Record Period.

### ***Criteria for selection of distributors***

When selecting distributors, we take into account a number of factors, including their:

- standing and level of influence in the local slipper industry;
- retail and brand management experience;
- logistics and distribution capacities;
- financial resources;
- credit-worthiness; and
- ability to secure ideal locations for Sales Points.

Generally, we are introduced to distributors through business referrals.

As we only began our branded product business in 2007, we placed our initial focus establishing our brand names and market presence during the Track Record Period. However as we have now established a dominant presence in the branded slipper market in the PRC and have developed a leading brand name, we plan to allocate more resources towards monitoring the operations of our distributors and the Sales Points.

### ***Distributorship agreements***

We enter into distributorship agreements with each of our distributors which are renewed annually and we rely on conditions and restrictions set out in these distributorship agreements as a means to manage our distributors. However, we do not have direct contractual relationships with any other third parties with whom our distributors may engage in the distribution or sale of our products. As such, we have no direct control over these third parties or any of the sales staff at the Sales Points. We can only exercise indirect control through the conditions imposed on our distributors as set out in our distributorship agreements.

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Our existing distributorship agreements with most of our distributors generally contain, among others, the following provisions:

- |                          |   |
|--------------------------|---|
| Geographical exclusivity | — Distributors are only permitted to sell our branded products within a designated geographical area.   |
| Undertakings             | — Distributors undertake to procure the building of the sales network within the designated geographical area and refrain from selling counterfeit products. Distributors shall renovate the speciality stores in accordance with the renovation guidelines provided by us. The renovation designs have to be approved by us.   |
| Target purchase amount   | <ul style="list-style-type: none"><li>— Distributors are expected to meet an annual target purchase amount. If the target purchase amount is achieved, our distributor would be entitled to a commission of 2% of the aggregate purchase amount for the relevant year. If the purchase amount exceeds the target purchase amount, our distributor would be entitled to a commission of 3% on the excess purchase amount for the relevant year. We may, at our discretion, pay an extra commission to distributors for outstanding performance.</li><li>— Should any of our distributors fail to meet 40% of the target purchase amount within half a year of the effective date of the distributorship agreement, we would be entitled to engage an additional distributor to oversee the operations of the Sales Points in the same designated area. The additional distributor shall enjoy the same rights as the existing distributor.</li><li>— Should any of our distributors fail to meet 60% of the target purchase amount within one year of the effective date of the distributorship agreement, we would be entitled to terminate the distributorship agreement and the defaulting distributor would be responsible for all losses arising from his failure to meet the target purchase amount.</li></ul> |
| Payment                  | — Our distributors are required to pay a fixed deposit of RMB50,000 within one week of the execution date of the distributorship agreement.   |
| Market information       | — Our distributors are required to submit contemporaneous market information to us on a timely basis.   |



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Right of termination — We have the right to terminate a distributorship agreement where the distributor assigns its right of authorised distributorship to a third party without our consent or where there has been a breach of certain provisions in the distributorship agreement, such as the provision regarding the target purchase amount as referred to above.

With one of our main business strategies geared on developing our branded product business, we believe that our ability to closely monitor the operations of our distributors and Sales Points will become increasingly important. In view of this, in September 2010 our Directors decided to incorporate additional terms and requirements to strengthen the monitoring of the distributors' performance. As at the Latest Practicable Date, almost all of our distributors have entered into the new distributorship agreements with us. These new distributorship agreements have taken effect from 2011.

Our new distributorship agreement imposes the following additional requirements on our distributors:

- to undergo all necessary business and tax registration procedures under PRC law; and
- to submit monthly reports and reports on request on inventory, customer feedback and market trends.

In addition, our Boree brand distributors are required to:

- establish a minimum number of Sales Points within a specified time. Incentives are offered to encourage them to exceed the minimum number of Sales Points. If a distributor fails to meet the minimum number, we may terminate the agreement unilaterally;
- should any of our Boree brand distributors set up any Boree brand specialty stores or concessionary counters, they must sell our branded products on an exclusive basis at those particular Boree Sales Points; and
- use their best endeavours to facilitate us in the installation of the DRP System at each of the Sales Points that they operate.

Our common distributors who sell both our Boree and Baofeng brands are required to comply with the additional requirements set out in the Boree distributorship agreement.

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### *Monitoring and support provided to our distributors*

Effective monitoring of our distributors and the Sales Points is critical to our success. Pursuant to our distributorship agreements, prior to the establishment of new Sales Points, our distributors must submit particulars of the store layout for our approval so as to ensure consistency between the image of the Sales Points and our brands' images. We also provide them with promotional posters to put up at the Sale Points for the same purpose. We are neither responsible for investing any capital for the establishment of the Sales Points, nor are we responsible for the expenses incurred in the business operation of the Sales Points.

Our distributors are responsible for overseeing the business operation of the Sales Points within their designated region. We have a set of policy documents on sales management and marketing promotion for the operation and management of Sales Points. We also offer training seminars to sales staff at the Sales Points.

We also review the performance of our distributors and assess whether there is a need for early termination of the distributorship agreement or whether we should renew the distributorship agreement. We consider among other factors, each distributor's operating results, ability to maintain our brands' images, retail expansion capacity, and compliance with the distributorship agreement. During the Track Record Period, such reviews were conducted once a year. We plan to increase the frequency of such reviews to once every half a year in the future so as to strengthen our ability to monitor the performance of our distributors.

During the Track Record Period, some of our distributors were found to have breached our distributorship agreements on terms relating to target purchase amount, payment of deposit, credit period and the provision of a copy of certain licences and permits for our records. In exercising our discretion as to whether to terminate the distributorship agreement with these distributors, our management team would consider, among other factors, the significance of the breach and the potential of the distributor in facilitating the expansion of our branded product business.

During the Track Record Period, we adopted the following inventory control policies in order to monitor the inventory levels of our distributors:

- (a) we conducted unscheduled visits at various Sales Points from time to time. During these visits, our Groups' regional sales person discussed with the manager or salespersons present at the Sales Point about various matters including the inventory levels at the Sales Points;
- (b) during our sales fairs, we made enquiries with our distributors as to whether they had any material accumulation of inventory. We have obtained confirmations from all 27 of our distributors as at 30 September 2010 as to their respective inventory levels during the Track Record Period; and

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- (c) we obtained reports from our existing distributors, which set out among other matters, the opening and closing balances of their respective inventory levels, covering the period from January 2010 to November 2010. We then checked these reports against our own sales and the orders placed by our distributors to ascertain whether there was any material accumulation of inventory at our distributors' level.

Based on the above inventory control policies and the distributors' confirmations, our Directors are not aware of any and believe that there was no material accumulation of stocks at our distributors' level during the Track Record Period and up to the Latest Practicable Date. As such, our Directors believe that the increase in our revenue during the Track Record Period was not caused by an accumulation of inventory at the distributors' level during the Track Record Period.

In order to strengthen our ability to manage inventory at our distributors' level, we now require our distributors to submit their reports to us on a monthly basis. Further, in June 2010, we have commenced to install a DRP System across a number of our Boree Sales Points. The DRP System allows us to track inventory levels in a real-time environment and forecast demand for our products at the relevant Sales Points. For further details of the DRP System, please see the sub-section headed "Information System" in this section of the prospectus.

### ***Seasonal sales fairs and ordering process***

We hold sales fairs to showcase our new products. Many distributors attend our sales fairs and review new products' prototypes before placing orders with us. We collect feedback from our distributors during the sales fairs. During the Track Record Period, we held one sales fair in 2007 and 2008, respectively, and two sales fairs in 2009 and 2010, respectively.

During a sales fair, some distributors may give us an indication of their intention to place an order with us before formally placing a purchase order with us. We will check if we have the production capacity before committing ourselves by accepting the formal purchase order. We then use this information for production planning. As such, our Directors believe that our sales fairs play an important role in our production planning process and gives us the opportunity to extract contemporaneous information from our distributors on the latest market trends in the PRC slipper market.

### ***Pricing***

We adopt different pricing strategies for our Boree and Baofeng brands. We position our Boree brand products as fashionable products, targeted at the medium-to-high end market. We have adopted a suggested retail pricing system for our Boree brand products that is applied nationwide to all of our distributors, in order to maintain our brand image and avoid price competition. We set our ex-factory prices to our distributors at a discount on the suggested retail price.

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On the other hand, we position our Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market. Therefore, unlike our Boree brand products, we do not have a suggested retail pricing system for our Baofeng brand products and these products are generally sold to our distributors at unified ex-factory prices.

### ***Credit policy***

We generally provide credit periods of three months to our distributors. We may extend a credit period based on the credit history and historical sales performance of the distributor. We may also extend a credit period based on individual circumstances including our evaluation of the credit-worthiness of our distributor.

It is our policy to review overdue balances and our receivable balances on an ongoing basis and appropriate assessment is made to determine whether or not provision for impairment of trade receivables will need to be made by the management. For details of our policy on provision for impairment, please see the sub-section “Financial Information — Trade and Other Receivables Analysis” in this prospectus.

### ***Sales return and exchange of goods policies***

Our sales return policies only permit our distributors to return defective products where we are responsible for such defects. Further, our distributors may within 45 days from the date of the first order in the relevant seasons exchange goods with us up to an amount equivalent to 30% of the purchase amount of the first order provided that (i) the goods to be exchanged is capable of being sold without re-packaging and (ii) the costs for delivery shall be borne by them. No further change of goods is allowed for subsequent orders of goods within the same season. As confirmed by our Directors, we did not receive any return or exchange requests during the Track Record Period.

## **MARKETING**

We organise sales fairs, conduct market research and manage business relationships with our distributors. We use a variety of media, such as television, newspapers, magazines, and internet to build our brand recognition in the PRC. As a general policy, we engage celebrities to be our image and brand spokespersons and to sponsor promotional events and maintain our market visibility by participating in exhibitions. We spent approximately 1.8%, 6.6%, 7.6% and 10.8% of our revenue from our branded products on our advertising and promotional activities for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

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### Advertising

We engage entertainment celebrities who reflect the image of our brands and who are popular in Chinese-speaking communities to promote our branded products. During the Track Record Period, we engaged a well-known and popular actress Ms. Jacqueline Li Xiao-lu (李小璐) as our image and brand spokesperson for our Boree brand. Ms. Li has been awarded the Golden Horse Best Actress Award and Deauville Asian Film Festival Best Actress Award. We believe that this marketing strategy will further increase public awareness of our brands. We plan to continue in this direction in terms of our brand building and promotional strategy.

We also market our brands on national television networks by way of advertising during weather forecast programmes and other television programmes on China Central Television channel. We believe that television advertising is an effective way to increase the recognition of our brands over a short period of time.

To maintain a consistently high-profile market presence, we also advertise our Boree and Baofeng brands in fashion magazines, such as 瑞麗時尚先鋒 (Rayli Fashion Pioneer\*), and 瑞麗服飾美容 (Rayli Fashion and Beauty\*), which are nation-wide monthly fashion magazines for women that are published both in hard copy and via the internet. Their readers consist primarily of affluent and fashion-conscious women. As part of our marketing strategy, we also organised various promotional activities with the agent of 北京《瑞麗》雜誌社 (Beijing Rayli Magazine House\*) such as the “2009年寶人瑞女郎評選 - 我要我美麗” (“Selection of 2009 Baoren Rui Lady - I want to be beautiful”) and a high-heel shoes racing event in 2009. The winners were also invited to act as our models and take part in the marketing campaigns of our Boree brand products. After various co-operation opportunities, our subsidiary, Quanzhou Baofeng entered into a co-operation agreement with the agent of 北京《瑞麗》雜誌社 (Beijing Rayli Magazine House\*) to organise similar promotional activities from 2010 to 2012.

### 2010 Shanghai World Expo

In 2010, we were selected to be a licensed manufacturer of slippers and retailer of footwear products in the 2010 Shanghai World Expo. As a licensed manufacturer and retailer, we are licensed to design and manufacture licensed products bearing the trademark of 2010 Shanghai World Expo and sell licensed products of 2010 Shanghai World Expo in an approved distribution network. We have dedicated a team of employees to plan and organise the design, production, sales and promotion of our 2010 Shanghai World Expo Products. We operated the World Expo Booth from May 2010 to October 2010 when the 2010 Shanghai World Expo was held.

In November 2010, we received an award in recognition of the quality of our 2010 Shanghai World Expo Products issued by 上海世博會事務協調局 (Bureau of Shanghai World Expo Coordination\*). We believe that our corporate image has been enhanced as a result of the national and global media coverage opportunities presented by 2010 Shanghai World Expo. We expect that the positive effect of this high profile event will continue to attract economic benefits for us beyond the 2010 Shanghai World Expo period.

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### **Slipper design competition**

We organised a slipper design competition known as “設計在我腳下 - 寶人杯全球跨界鞋設計大賽” (Under The Feet - BaoF Cup Design Challenge Competition of Crossover Shoes) in 2009 via the website “[www.NewWebPick.com](http://www.NewWebPick.com)”. Our competition attracted participation from more than 1,000 designers with over 2,200 designs from more than 40 countries all over the world. Following the competition, we selected one of the winning designs to manufacture as part of our autumn/winter collection.

As the competition proved to be a success, we held another slipper design competition known as “腳逐天下” (BaoF Cup No.2 — Fashion Your Step) in 2010. We aim to boost our corporate image as one that values innovation and design capability by increasing the publicity of these events through media coverage to announce the winning designs. Our Directors believe that these competitions will strengthen our corporate image and will increase recognition of our corporate name.

### **RESEARCH, DEVELOPMENT AND DESIGN**

#### **Product design**

##### ***Design ability***

We have an R&D department in Quanzhou City, Fujian Province, the PRC. As at 30 September 2010, we had 66 staff in our R&D department. The R&D department is responsible for developing product designs for our branded products. In addition, they are also responsible for developing prototypes for our OEM customers and refine them to suit our customers' specifications. In relation to our branded product business, we create our own designs in response to changes in consumer preferences and showcase them in our seasonal sales fairs. By leveraging on the years of experience in our OEM business, we believe that our R&D team is able to identify and anticipate market trends and design fashionable slippers to meet changes in tastes and preferences of consumers for our two brands. Our R&D department also plays an integral role in our quality control system. For details, please see the sub-section headed “Quality Control” in this section of the prospectus.

Further, in April 2010, we entered into a co-operative agreement with an external research centre in Dongguan for a term of five years on a non-exclusive basis, pursuant to which it shall provide not less than 1,000 slipper designs to us for our selection each year and each selected design shall be subject to a standard charge. Although the research centre does not provide services to us on an exclusive basis, we own the relevant designs that they provide to us under the agreement. We believe that with their specialised focus in the design of footwear, they will be able to offer us designs which will be of quality and will be popular in the market.

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Further, the annual worldwide competitions as discussed in the sub-section headed “Marketing — Slipper design competition” in this section of the prospectus also forms part of our strategy to improve on our design capability. As the competition in 2009 proved to be a success, attracting over 2,200 designs from around the world, we held a similar competition 2010 and we plan to continue holding these competitions as part of our strategy to strengthen our design capability in the future. We aim to attract a large number of innovative designs from around the world. In order to do so, we will strive to boost the publicity of these events and will also announce the winning designs through media coverage. Further, we may also negotiate with the designers to use some of the winning designs for production under our brand names. Therefore, we believe that these competitions will serve the dual purposes of promoting our corporate image and enhancing our design capability simultaneously.

To add a further international perspective to our designs, we have also engaged an external design house in Italy to create footwear prototypes for our selection, and then create designs for each selected footwear prototype. We believe that we will be able to gain access to their first-hand knowledge of the latest global fashion trends. Our Directors believe the strategies of co-operating with the external research centre in Dongguan, holding annual worldwide slipper design competitions and the engagement with the external design house in Italy complements our existing design capability and sets us in the direction for further solid development in our branded product business in the future.

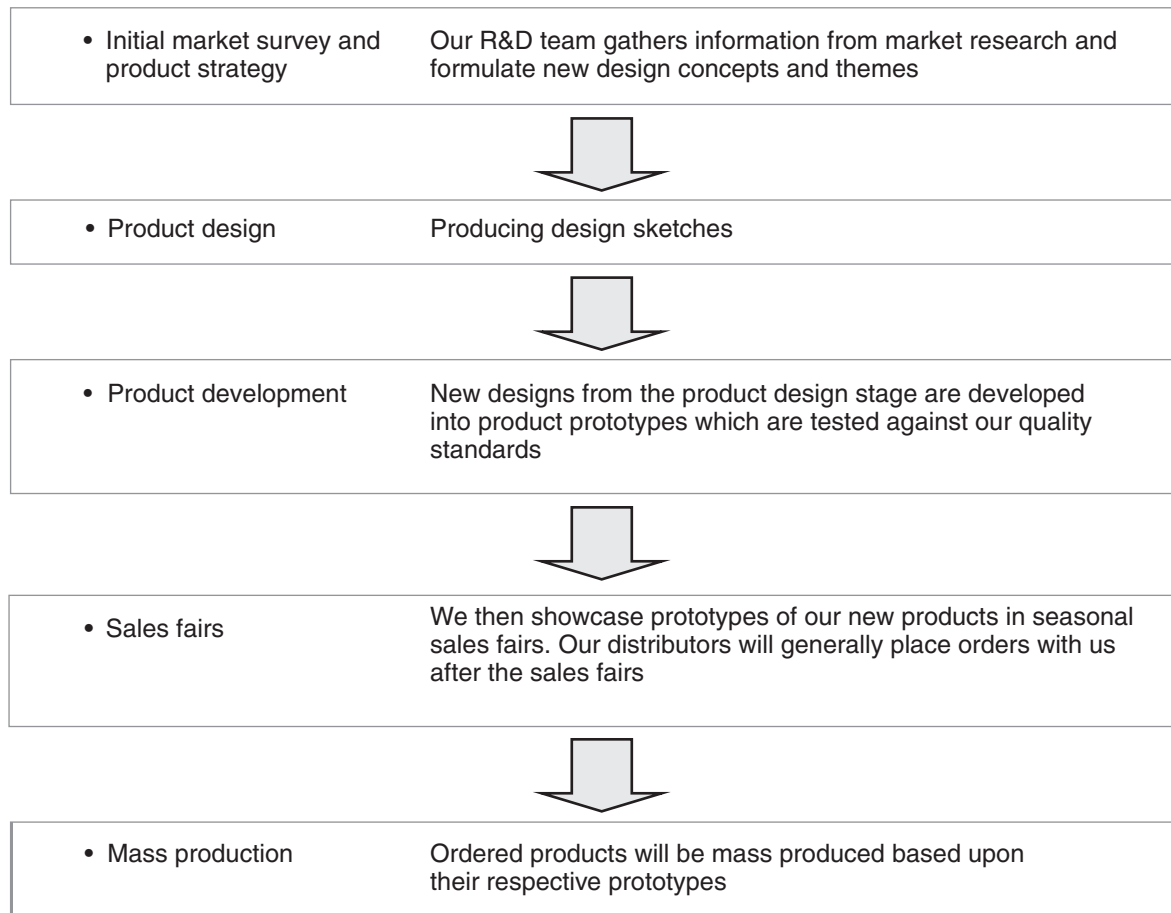
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## OUR BUSINESS

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### *Design process*

Our design team initiates various design themes for our branded products to appeal to different tastes and preferences of consumers. Our product design process consists of several integrated design steps ranging from initial product concept to production and testing of prototypes. The diagram below illustrates the typical design process for our Boree and Baofeng brand products:



Our designer Ms. Jiang Wanping was awarded “2008 Top Ten Designers of the PRC Footwear Industry” in the First Session of the PRC Footwear Industry Top Ten Designers Selection” jointly held by 中國皮革和製鞋工業研究院 (China Leather and Footwear Manufacturing Research Institution\*) and 皮革和製鞋行業生產力促進中心 (Leather and Footwear Industry Productivity Enhancement Centre\*) in 2008 for a design under our Boree brand.



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### **R&D in technologies**

So as to provide quality products to our customers, we have devoted resources to conducting research and developing new technologies to improve on the materials used in our production. We, together with 中國皮革和製鞋工業研究院 (China Leather and Footwear Industry Research Institute\*), were responsible for drafting the National EVA Slipper and Sandal Industry Standard. This standard was approved by National Development and Reform Commission of the PRC and was promulgated in 2008. EVA is the generally known as foam rubber and is commonly used for manufacturing slippers due to its light weight, glossy finish, easy-to-mould and odorless qualities. Our Directors believe that we are in an advantageous position to master the national industry standard for EVA slippers set for the industry. Our Directors further believe that we are able to apply on our understanding of the National EVA Slipper Industry Standard in our research process to develop new technologies to improve the quality of our materials in a way that is consistent with the national standard.

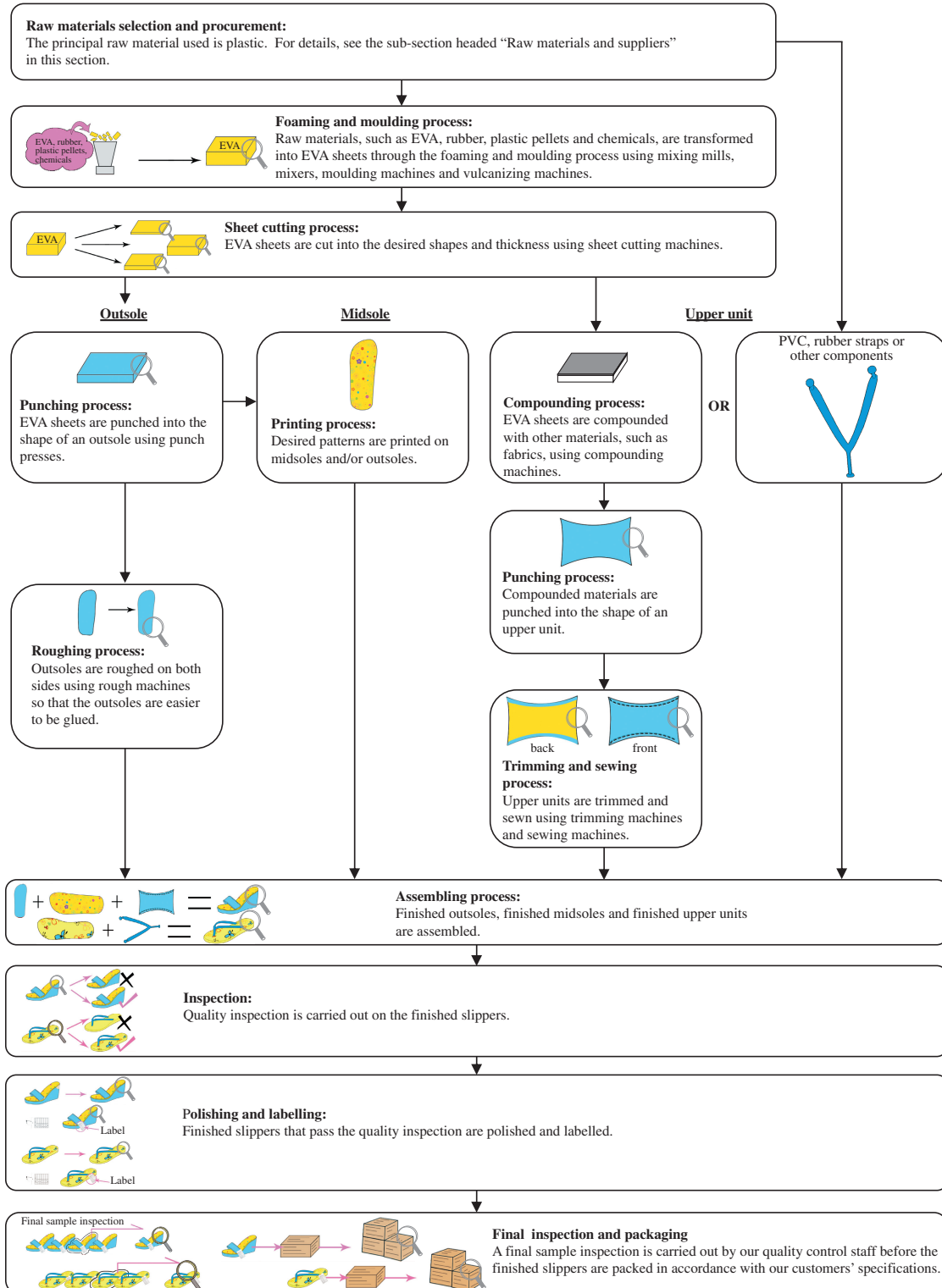
As at the Latest Practicable Date, we had 9 registered patents comprising 6 utility models and 3 designs. Please see the sub-section headed “Statutory and General Information — Intellectual Property Rights of our Group” in Appendix VI to this prospectus for further details.

# OUR BUSINESS

## PRODUCTION

### Our production process

The production process of our slippers vary for different categories of slippers, and the principal steps are illustrated in the diagram below:



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### Our production facilities and capacities

We have two production facilities strategically located in Quanzhou City, Fujian Province, the PRC, which is considered to be a hub city of the PRC footwear industry, with many of our raw material providers located in the proximity. The table below sets out certain information relating to our production facilities in the PRC:

Facilities	Location	Gross floor area (in sq. m.)	Number of assembly lines	Principal products	Combined Annual production capacity ( <i>Note 1</i> ) (approximately in million pairs) in 2009
Huoju Production Facility	Huoju Industrial Zone, Jiangnan Street, Licheng District, Quanzhou City, Fujian Province, the PRC	51,498 ( <i>Note 2</i> )	13	Slippers	50
High-Tech Asset Production Facility	Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, the PRC	32,210	1	Outsoles, midsoles and slippers	

*Note 1: Calculated on the basis that our production facilities are operating at 18 hours per day and 305 days per year.*

*Note 2: Total gross floor area of the Huoju Production Facility includes six blocks of buildings comprising warehouses, factories and dormitories with an aggregate gross floor area of approximately 51,468 sq.m. and a small house of approximately 30 sq.m..*

In 2009, we had a combined annual production capacity of approximately 50 million pairs of footwear at the Huoju Production Facility and the High-Tech Asset Production Facility (calculated on the basis that our production facilities are operating at 18 hours per day and 305 days per year).

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The table below sets forth further information on our production facilities:

	<u>Production Facilities</u>
<b>Production volume (pairs)</b>	
For the year ended 31 December 2007	32.1 million
For the year ended 31 December 2008	37.9 million
For the year ended 31 December 2009	39.8 million
For the nine months ended 30 September 2009	28.7 million
For the nine months ended 30 September 2010	29.2 million
<b>Utilisation rate</b>	
For the year ended 31 December 2007	64.2%
For the year ended 31 December 2008	75.8%
For the year ended 31 December 2009	79.6%
For the nine months ended 30 September 2009	76.5%
For the nine months ended 30 September 2010	77.9%

### ***Contingency Plan***

According to the Frost & Sullivan Report, we were the largest slipper manufacturer in the PRC, based on production volume, for the year ended 31 December 2009 and for the six months ended 30 June 2010.

As at the Latest Practicable Date, we leased and occupied the High-Tech Asset Production Facility located at the High-Tech Asset Production Property. The High-Tech Asset Production Facility has a gross floor area of 32,210 sq.m., and consists of workshops, warehouses, dormitories and offices. As advised by our PRC Legal Advisers, the third-party landlord of the High-Tech Asset Production Property is required to but has not obtained the planning licence for constructing the High-Tech Asset Production Facility as the facility was not constructed in accordance with the authorised planning of the local town. The lack of relevant construction project planning licences may result in the invalidity of the relevant tenancy agreement. As a result, we may not be able to defend our leasehold interests against the relevant PRC authorities should they decide to enforce their rights on the High-Tech Asset Production Property.

Should the relevant PRC authorities enforce their rights on the High-Tech Asset Production Property, we may be required to cease occupation and usage of the High-Tech Asset Production Facility, in which case, we will adopt the following contingency plan:

- (a) we will relocate our warehouses at the High-Tech Asset Production Facility to nearby premises to be rented from third parties;

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- (b) at the same time, we will relocate our warehouses at the Huoju Production Facility to nearby premises to be rented from third parties. We will then relocate our manufacturing facilities in the workshops as well as the dormitories and offices from the High-Tech Asset Production Facility to the Huoju Production Facility. As the premises to be rented will only be used for temporary storage and will be rented on a short-term basis only, there will be no need to undertake any large-scale construction work or other significant preparatory work before such relocation can be effected. As such, our Directors do not expect to encounter any significant difficulties in relocating our warehouses. Our Directors estimate that the relocation of the warehouses at the Huoju Production Facility can be completed within 14 working days. Our Directors consider that the land at which the Huoju Production Facility is situated is readily available to accommodate the relocation of the High-Tech Asset Production Facility; and
- (c) at the same time, we will also directly purchase midsoles and outsoles from third-party suppliers and/or subcontract the production of our midsoles and outsoles to third-party sub-contractors. The High-Tech Asset Production Facility is not the main production facility of our Group and is primarily used for the production of midsoles and outsoles. Quanzhou City, which is where our production facilities are situated, is considered to be the hub city of the PRC footwear industry and as such, there are numerous suppliers and/or subcontractors of such components in close proximity to us. Further, we have existing business relationships with a number of sub-contractors for the production of such components. Based on our past experience, our Directors expect that we will be able to produce midsoles and outsoles that meet our standards in a timely manner. As such, our Directors expect that we will have easy recourse to numerous suppliers and/or sub-contractors for the supply of our midsoles and outsoles.

Our Directors estimate that all the steps involved in the above contingency plan can be completed within approximately 65 working days. The expected total relocation cost is approximately RMB1 million which includes, among others, the expected cost of relocating the warehouses at the Huoju Production Facility of approximately RMB67,500 and relocating the warehouses at the High-Tech Asset Production Facility of approximately RMB82,500. The expected cost of renting a temporary storage premises should be no more than approximately RMB425,000 per month (Note). As we expect that a temporary storage premises can be rented from third parties within a short period of time and the production of midsoles and outsoles can readily be purchased and/or subcontracted to nearby and/or our existing third-party sub-contractors, our Directors consider that the High-Tech Asset Production Facility is not crucial to our Company's operations. Should our Group be required to implement the contingency plan, our Directors believe that there will be minimal disruption to our operations, including our production output and schedule.

*Note: The expected cost of renting a temporary storage premises is based on an independent quotation, which provides that as at 23 November 2010, the cost of renting a storage premises should be no more than approximately RMB25 per sq.m.. It is also calculated by reference to the expected size of the temporary storage premises required to accommodate the relocation of our warehouses at the Huoju Production Facility and the High-Tech Asset Production Facility.*

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### ***Expansion plan***

According to the Frost & Sullivan Report, the growth in the PRC slipper market is expected to continue in the near future. The utilisation rate of our production facilities for the nine months ended 30 September 2010 was approximately 77.9%. However, due to the effects of seasonality in the demand for slippers, the utilisation rate of our production facilities would increase significantly at certain times of a year when we are aiming to fulfil our peak season demands. As such, our Directors consider that there is a pressing need to increase our production capacity in preparation for the anticipated increase in demand for slippers and to minimise the risk of losing potential sales opportunities during peak seasons. In this regard, conditional upon obtaining approval(s) from the relevant governmental authorities, we plan to apply 35% of our proceeds from the Global Offering and a portion of our working capital, if necessary, towards constructing new production facilities in two phases on the New Land to increase our current production capacity progressively and towards installing additional production lines at the Huoju Production Facility.

A breakdown of the expected costs of our expansion plan is set out below as follows:

	<u>Expected cost</u>
	<i>(RMB'000)</i>
<b><i>A. New production facilities on the New Land</i></b>	
Phase 1	
- Construction cost	83,000
- Cost of installing, among others, additional production lines at the new production facilities	31,000
- Relocation cost	1,500
- Miscellaneous costs	1,500
Phase 2	
- Construction cost	26,000
- Cost of installing, among others, additional production lines at the new production facilities	24,000
- Miscellaneous costs	500
<b><i>B. Installing additional production lines at the Huoju Production Facility</i></b>	
- Cost of installing additional production lines at the Huoju Production Facility	<u>4,000</u>
<b>Total</b>	<u><u>171,500</u></u>

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We plan to commence the installation of additional production lines at the Huoju Production Facility in early 2011 and to commence Phase 1 of construction of new production facilities on the New Land in the first half of 2011. All land use rights certificates in relation to the New Land have been obtained. Please see the sub-section headed “Property” in this section of the prospectus for further details of the New Land.

The following table sets out details of the new production facilities to be installed on the New Land.

### Phase 1

Buildings	Facilities	Gross floor space (sq. m.)	Expected completion time
One twelve-storey building	Standard workshops	38,500	April 2012
	Warehouses	15,300	
One eight-storey building	Office area	19,200	April 2012
One twelve-storey building	Dormitory complex including canteen and arena	14,400	April 2012

### Phase 2

Buildings	Facilities	Gross floor space (sq. m.)	Expected completion time
One twelve-storey building	Standard workshops	38,500	November 2016
	Warehouses	15,300	

Upon completion of the construction project on the New Land, the maximum annual production capacity that can be supported by our new production facilities is expected to be approximately 94 million pairs of footwear, wherein the production facilities built in Phase 1 can support a maximum annual production capacity of approximately 47 million pairs of footwear and Phase 2 can support a maximum annual production capacity of approximately 47 million pairs of footwear (Note). We will install additional production lines at our new production facilities in accordance with our production capacity needs, which will be assessed by our management team from time to time.

*Note: Our expected maximum annual production capacity (pairs) is calculated on the same basis as our existing production capacity, i.e. 18 hours per day and 305 days per year. We plan to increase the number of production lines to be installed at our new production facilities by reference to the proportional increase in gross floor space that will be used for our standard workshops upon completion of Phase 1 and Phase 2 of our construction project, respectively. As such, our expected maximum annual production capacity is calculated by reference to the ratio between our combined annual production capacity in 2009 and the gross floor space used for our standard workshops as well as the gross floor space allocated for our standard workshops at the new production facilities upon completion of Phase 1 and Phase 2 of our construction project, respectively.*

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### Subcontracting

During the Track Record Period, we subcontracted the production of a portion of our products to third-party sub-contractors as we did not have the necessary facilities and resources to manufacture some of the products that we supplied, including accessories and certain non-slipper footwear. We may also engage sub-contractors for an effective cost management purpose. Further, as the demand for slippers is subject to seasonal fluctuations, our production facilities and resources may be substantially or fully utilised at times to meet peak season demands. During the Track Record Period, we subcontracted a portion of our slipper products to third-party sub-contractors during peak seasons so as to prevent a loss of sales opportunities. Our Directors consider that by engaging sub-contractors, our internal production resources can be deployed more efficiently for core production work. We believe that such subcontracting strategy allows us to adjust our product and business mix in a timely manner without the need for significant capital outlay.

The table below sets out a breakdown between our Group's self-production and subcontracted production by percentage of cost of sales during the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
				<i>(Unaudited)</i>	
Self-production	94.9%	95.4%	85.8%	89.2%	80.3%
Subcontracted production	5.1%	4.6%	14.2%	10.8%	19.7%

We do not enter into long-term agreements with our third-party sub-contractors but instead maintain flexibility by entering annual framework contracts with them. We place individual purchase orders, which set out the terms regarding, among other things, quantity, price and specifications. The salient terms of the annual framework contracts entered into between third-party sub-contractors and us are set out below:

- Quality and specifications - sub-contractors shall produce products in accordance with the quality standards and specifications set by us.
- Payment terms - payment shall be made within three months after delivery of products.
- Defective and delay - sub-contractors shall be responsible for any losses suffered by us as a result of products of defective quality or delay in delivery.



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We pay our third-party sub-contractors a subcontracting fee based on the quantity of products produced. The subcontracting fee for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 were approximately RMB16.5 million, RMB16.9 million, RMB60.4 million and RMB82.7 million, respectively. During the Track Record Period, we engaged more than 14 third-party sub-contractors, which were primarily located in Guangdong Province, the PRC. The cost of subcontracting amounted to approximately 5.1%, 4.6%, 14.2% and 19.7% of our total cost of sales for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

### QUALITY CONTROL

Our Directors believe that our commitment to quality control is one of the principal factors contributing to our success. We have a strict quality control system and a set of quality standards in line with the National EVA Slipper and Sandal Industry Standard. In addition, we are equipped with testing machinery to ensure our finished products meet our customers' and our quality standards before delivery. We pride our success in both our OEM business and the branded product business on our commitment to quality. We value our dedicated team of quality control staff and acknowledge the importance of having a comprehensive quality control system and the necessary testing equipment and machinery to our business.

Our Directors believe that the quality of our products has been widely acknowledged. The following table presents the details of main certifications and accreditation we have obtained:

Certification/Accreditation	Issuing organisation	Area of accreditation	Date of issue
ISO9001:2008 certification	中國質量認證中心 (China Quality Certification Centre*)	Design and production of slippers and sandals	4 April 2003
2005-2006年度“質量管理先進 單位” (2005-2006 Advanced Quality Management Unit*)	福建省品質管制協會 (Fujian Provincial Quality Management Association*) and 福建品質管制雜誌社 (Fujian Quality Management Magazine House*)	Overall products quality	June 2005
2008年中輕產品質量保障中心 質量、服務、信譽AAA企業 (2008 Light Products Quality Assurance Centre, AAA Enterprise in terms of quality, service and reputation*)	中國中輕產品品質保 障中心 (China Light Product Quality Assurance Centre*)	Quality of EVA fashionable slippers and sandals	30 June 2008

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<u>Certification/Accreditation</u>	<u>Issuing organisation</u>	<u>Area of accreditation</u>	<u>Date of issue</u>
2008質量管理先進企業 (2008 Advanced Quality Management Enterprise*)	福建省品質技術監督 局 (Fujian Provincial Bureau of Quality and Technical Supervision*)	Quality management system	1 July 2009
特許產品質量獎 (Quality Award of Licensed Product)	上海世博會事務協調 局 (Bureau of Shanghai World Expo Coordination*)	Quality of 2010 Shanghai World Expo Products	November 2010

As at 30 September 2010, we had 41 quality control staff in charge of the overall quality control of our products. Our quality control staff is tasked with (a) inspecting raw materials and components before such materials and components are accepted for use; (b) random sample testing at different stages in the production process to ensure that the quality of our products are satisfactory; and (c) checking the finished products of each product lines for consistency and quality upon completion of the production process.

In performing quality control procedure in the production process, our quality control staff, together with our production and R&D team, will take the following steps:

1. *Production of product components*

- Product components are produced in accordance with the technological process and operational instructions set by our R&D team and the specifications set out in the production order (if any).

2. *Initial production quality inspection — product components*

- Quality of product components is inspected by our quality control staff, together with the workshop chief. Inspection results are recorded.
- If it is discovered that any product components are of dissatisfactory quality, our quality control staff will report the matter to the workshop chief, who will follow up the matter and carry out necessary remedial measures, or to our R&D team for retesting.

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### 3. *Self-examination*

- Our production staff is required to conduct a quality examination throughout the production process and report to our on-site workshop chief in a timely manner on any dissatisfactory product or product components for further analysis and refinement.

### 4. *Itinerate quality inspection*

- Our quality staff itinerates and performs quality inspection at different stages in the production process and records the inspection results.
- If it is discovered that any product components are of dissatisfactory quality, our quality control staff will report the matter to the workshop chief, who will follow up the matter and carry out necessary remedial measures.
- Our workshop chief is required to inspect the production process regularly and is responsible for handling the products that are of dissatisfactory quality.

### 5. *Packaging and storage*

- Finished products are inspected by our quality control staff before they are packaged and delivered to our warehouses for storage.
- Products of dissatisfactory quality are returned to our production team for the necessary remedial measures to be carried out.

A final quality inspection is performed on the finished subcontracted products upon delivery of these products to our warehouses for storage. Further, the quality of some of our OEM products are monitored by third-party appointed quality controllers from time to time. Our Directors confirm that we did not receive any complaints as to the quality of our products during the Track Record Period.

## INFORMATION SYSTEM

We believe that a comprehensive information system is important to improving our efficiency in R&D, supply chain management, production planning, quality and inventory control, logistics and sales. We have been improving our management information system in phases to enhance the integration of our databases. In 2010, we upgraded our ERP System and in June 2010, we commenced to install a DRP System at certain Boree Sales Points.

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The upgraded ERP system consolidates all business operations, including our production and finance operations, into a uniform and enterprise-wide system environment so as to facilitate the flow of information within our Company. On the other hand, the DRP System allows our management and relevant personnel to track inventory levels in a real-time environment and forecast demand for our products at the relevant Boree Sales Points. We expect to be able to plan our production levels more effectively based on such information. Our R&D department will also be able to analyse such information to gain a better understanding of consumer demand patterns and preferences and create product designs accordingly. We believe keeping the design of our products in line with consumer demand and preferences will help us maintain a competitive edge.

As at the Latest Practicable Date, the DRP System was installed at 116 Boree Sales Points in various provinces, districts and municipalities of the PRC, including, among others, Fujian, Guangdong, Heilongjiang, Jilin, Liaoning, Shanghai, Zhejiang, Jiangsu, Beijing and Hubei, all of which were operated by our distributors. We are generally responsible for the cost of installing the DRP System. Further, consent and/or co-operation of the relevant distributors is required for the installation of the DRP System. We have incorporated a term in our distributorship agreement to procure such consent and/or co-operation. The relevant term provides that the distributors shall use their best endeavours to facilitate us in the installation of the DRP System at the Boree Sales Points and to enter into agreements on similar terms with the sub-distributors should they wish to on-sell our Group's branded products. However, if a particular Boree Sales Point is located in a supermarket, shopping mall or centre or any other place which is operated by a third party, consent from such third party may also be required. We cannot assure you that we will be able to obtain all requisite consents and as such, we may not be able to install the DRP System at all of our Boree Sales Points.

We expect that the upgraded ERP System together with the DRP System will facilitate the integration and exchange of information among our Boree Sales Points, distributors and our headquarters. We will continue to strengthen the management and control of our distribution network by using part of the proceeds from the Global Offering to extend the coverage of our DRP system to as many Boree Sales Points as practicable and to upgrade our information systems technology from time to time.

### INVENTORY CONTROL

Our inventories mainly consist of (1) raw materials; (2) work-in-progress; and (3) finished products. Our inventory policy is to maintain low inventory levels without compromising our commitment to meeting delivery schedules. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our average inventory turnover days were 41.8 days, 39.5 days, 39.8 days and 31.1 days, respectively. We usually manage our inventory levels by careful planning at the initial stage. Except when the price of crude oil is volatile, such as in 2007 and early 2008, we generally do not procure raw materials and commence production until after receipt of the confirmed purchase orders from our customers. We did not receive any cancelled purchase orders during the Track Record Period. As a result,

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our raw materials are not usually susceptible to obsolescence due to the passage of time. We also carry out physical inventory counts twice a year to identify obsolete or damaged products. Though regular monitoring, we were able to keep our inventory levels at a low level during the Track Record Period.

### RAW MATERIALS AND SUPPLIERS


The principal type of raw material used in the production of slippers is plastic. We source most of our major raw materials from suppliers located in Fujian Province, the PRC. We select our suppliers based on product quality, reliability, price and speed of delivery.

We have developed long-term relationships with our key suppliers. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our five largest suppliers accounted for approximately 30.6%, 33.1%, 28.2% and 26.2%, respectively, of our total purchases, and our largest supplier accounted for approximately 12.3%, 8.0%, 12.0% and 9.1%, respectively, of our total purchases. We were usually granted a credit period of three months and during the Track Record Period, we had not exceeded such credit period in any of our orders placed with suppliers.

None of our Directors, our chief executive or any person who, to the best knowledge and information of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our Group's five largest suppliers during the Track Record Period.

### INTELLECTUAL PROPERTY RIGHTS

We recognise the importance of protecting and enforcing our intellectual property rights and rely on intellectual property laws and related registration procedures to protect our intellectual property rights.

As at the Latest Practicable Date, we had 28 registered trademarks, including **boree** and **baod** 宝峰, with the Trademark Office of the State Administration for Industry and Commerce in the PRC. We registered our **boree** 宝 and **baod** 宝峰 in Hong Kong. We also registered our **baod** 宝 in Macau, Hong Kong and Taiwan, Malaysia and our  in designations under the Madrid Agreement and Protocol. As at the Latest Practicable Date, we had 8 applications for the registration of trademarks in the PRC.

As at the Latest Practicable Date, we had 9 registered patents including 6 utility models and 3 designs, and we had 2 applications for the registration of utility model in the PRC. As at the Latest Practicable Date, we also had 30 registered domain names and 8 registered internet keywords in the PRC. Please see the sub-section headed "Statutory and General Information — Further Information about Our Business — 2. Intellectual Property Rights of our Group" in Appendix VI to this prospectus for further details.

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We safeguard our intellectual property rights through the registration of trademarks, and may include relevant protective provisions in contracts with third parties. As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and our Directors believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. As at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the infringement of any intellectual property rights of third parties.

Further, we have established internal policies to manage the risk of inadvertently infringing third parties' intellectual property rights in the designs of our branded products. In particular, our R&D department, which is responsible for product design, is required to ensure that our branded products are not identical or bear a close resemblance to any designs that are already made public. In addition, employees who are responsible for OEM products are not allowed to participate in the design of the same types of products that come under our own brands. Where we employ designs developed by others in our products, we would either require that we have the ownership of the relevant intellectual property rights or enter into licence agreements with the owner of the relevant intellectual property rights. Our employees are required to promptly report any intellectual property infringement or potential infringement by our Group to the R&D department, who will then liaise with our internal audit department and legal advisers to assess the relevant risks and report their assessment to our Directors for further action. In relation to our co-operation with external research centre in Dongguan as described in the sub-section headed "Research, Development and Design — Product design — Design ability" in this section of the prospectus, we require that the designs supplied by them to us do not infringe upon the intellectual property rights of other third parties. Pursuant to the co-operative agreement, the research centre is required to compensate us for all losses incurred by us arising from any claims, litigation and administrative penalties for the infringement of intellectual property rights in respect of the designs supplied by them to us.

To the best knowledge and information of our Directors, none of our branded products were counterfeited during the Track Record Period.

### COMPETITION

The demand for slippers and in particular, those with fashionable designs, have grown in recent years which is in line with the economic growth of the PRC. Our Directors believe that the entry barriers to the PRC branded slipper market are high due to the resources required to build brand awareness and to establish an effective distribution network.

Participants in the branded slipper market in the PRC include international and domestic brands, which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments. This competition has led to leading brands continuing to gain market share at the expense of less established, lower-end brands. Nevertheless, we believe that we have the following competitive strengths over our major competitors:

- we are a leading supplier of own-branded slippers in the PRC;

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## OUR BUSINESS

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- we have established long-term relationships with our OEM customers;
- we played a leading role in the development of the manufacturing standard of slippers in the PRC;
- we were the largest slipper manufacturer in the PRC with strong production capability;
- we have access to an extensive and established distributorship network; and
- we have an experienced and stable management team with in-depth insights.

### ENVIRONMENTAL PROTECTION

We are subject to PRC environmental laws and regulations including the Environment Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waste residues. We consider the protection of the environment to be important.

We have obtained ISO14001:2004 certification for production of our footwear products. This certification is valid until 5 March 2012.

We believe that our production process does not generate environmental hazards and does not otherwise have a significant adverse effect on the environment and that our environmental protection measures are adequate to comply with all applicable current local and national PRC regulations. We paid approximately RMB38,000, RMB41,000, RMB43,000 and RMB31,000 as costs of compliance with the applicable environmental rules and regulations for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively. The expected cost of compliance with applicable environmental rules and regulations for the year 2011 is approximately RMB45,000.

As at the Latest Practicable Date, no administrative sanctions, penalties or punishments had been imposed upon us for the violation of any environmental laws or regulations.

### LITIGATION AND LEGAL COMPLIANCE

From time to time, we may become involved in legal proceedings relating to claims arising out of operations in the normal course of business. None of these proceedings, individually or collectively, had, and there are no legal proceedings or arbitrations, pending or threatened, against us or any of our Directors, that could have a material adverse effect on our financial condition or results of operations.

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As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that could have a material adverse effect on our results of operations or financial condition.

As advised by our PRC Legal Advisers, save as disclosed below, we have obtained the relevant approvals, permits, licences and certificates for conducting our businesses and we have complied with the relevant PRC laws and regulations in all material respects. To strengthen our internal control, we plan to set up a strategic planning department to handle all compliance-related matters in the future.

### *Intellectual property rights*

During the Track Record Period, we engaged a marketing company to provide us with promotional materials for our marketing purposes. We used these promotional materials for our marketing purposes from January 2009 to March 2010. However, according to our PRC Legal Advisers, as these promotional materials bear resemblance to certain movie posters, we may be held liable for infringement of the intellectual property rights of third parties. The marketing company has given us an undertaking that it will compensate us for all losses to be incurred by us arising from any claims, litigation and administrative penalties for the infringement of intellectual property rights in respect of the promotional materials they have supplied to us. Although we have ceased using such promotional materials, no assurance can be given by our PRC Legal Advisers or by us that the owner of the intellectual property rights of the relevant promotional materials will not bring any claim or lawsuit against us and the relevant PRC authority will not hold us liable of infringement of intellectual property rights arising from our use of such promotional materials in the past if such claims or lawsuits are brought against us. According to our PRC Legal Advisers, should we be found liable for the above potential infringement, the maximum penalty that may be imposed on us in light of the circumstances of our case according to the relevant PRC laws is RMB1.5 million. No provision has been made regarding such possible penalty. Our Controlling Shareholders have agreed to indemnify us for all losses in the event that we are found liable for an infringement of intellectual property rights in respect of the promotional materials. Please see the sub-section headed "Risk Factors - Our business may be adversely affected by inadequate protection of intellectual property rights and/or claims by third parties for possible infringement of their intellectual property rights" in this prospectus for further details.

In order to minimise the risk of similar events occurring in the future, we now require that all promotional materials must first be approved by our strategic planning department before they can be released to the public. If our strategic planning department considers that there are material issues or if they are uncertain about certain issues relating to the promotional materials, we shall seek professional advice from our legal advisers before making a decision as to whether to approve the release of the promotional materials.



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### *Housing provident fund contributions*

According to our PRC Legal Advisers, our subsidiary, Quanzhou Baofeng is required to undergo certain registration procedures and make housing provident fund contributions for the benefit of its employees under the relevant PRC laws and regulations. Quanzhou Baofeng has not made any housing provident fund contributions for the benefit of its employees for the period prior to April 2010 as Quanzhou Baofeng had misunderstood the mandatory nature of such obligations in the past. However on 8 June 2010, Quanzhou Baofeng underwent the requisite registration procedures and paid the outstanding housing provident fund contributions for the period from April to June 2010. Since then, Quanzhou Baofeng has been paying and will continue to pay the housing provident fund contributions as and when they fall due. As at the Latest Practicable Date, based upon our assessment, the amount of outstanding housing provident fund contributions was approximately RMB6.6 million. According to our PRC Legal Advisers, the relevant local PRC authority may require Quanzhou Baofeng to pay all outstanding housing provident fund contributions and impose a maximum penalty of not more than RMB50,000 together with a default fine starting from the first date of default and calculated at the rate of 0.03% per day. As at 30 September 2010, based upon our assessment, the total maximum penalty that may be imposed on us was approximately RMB6.2 million. On 16 August 2010, the relevant local PRC authority issued a confirmation confirming that it will not hold Quanzhou Baofeng liable or impose any penalty for its non-compliance of the relevant housing provident fund related laws and regulations in the past.

Our PRC Legal Advisers have advised that the relevant local PRC authority has the authority to issue the confirmation and based on the confirmation issued, the relevant local PRC authority will not hold Quanzhou Baofeng liable or impose any penalty for its non-compliance of the relevant housing provident fund related laws and regulations in the past. Based on the confirmation issued and our PRC Legal Advisers' advice, our Directors are of the view that we will not be required by the local PRC authority to pay the outstanding housing provident fund contributions and the chance of the relevant local PRC authority imposing a penalty on Quanzhou Baofeng is remote. As such, no provision in respect of the outstanding amount and/or the penalty for non-payment of housing provident fund contributions has been made. Our Controlling Shareholders have agreed to indemnify us for all losses arising from our non-payment of housing provident fund contributions in the past. Please see the sub-section headed "Directors, Senior Management and Employees - Social Insurances and Housing Provident Fund" for further details.

Going forward, our finance department shall designate a person to be responsible for liaising with the relevant local PRC authority to ensure that we will fulfil our obligations as to the payment of housing provident fund contributions in a timely manner in the future.

### *Construction of production lines*

According to our PRC Legal Advisers, as prescribed by the relevant PRC laws and regulations, certain approvals from the relevant local PRC authority are required for making fixed assets investment (including the construction of productions lines), which are in turn

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required for completing certain procedures including, among others, business registration, tax registration and foreign exchange management. As Quanzhou Baofeng was permitted to complete certain procedures regarding business registration, tax registration and foreign exchange management, despite not having obtained the requisite approvals for making fixed assets investments in relation to the construction of a certain production line, it was under the misconception that these approvals were not mandatory. As such, Quanzhou Baofeng did not obtain the requisite approvals for the construction of certain production lines. However it has subsequently notified the relevant local PRC authority and undergone all necessary approval procedures retroactively. The relevant local PRC authority has also issued a confirmation stating that it will not impose any penalties on Quanzhou Baofeng in relation to the non-compliance with the approval procedures mentioned above. According to our PRC Legal Advisers, the relevant local PRC authority was authorised to issue the confirmation.

Should we have any production expansion or production alteration plans in the future, we shall seek professional advice from our legal advisers and other relevant professionals as to whether we will be required to undergo any approval procedures, and if so, the actual procedures involved. Should any such approval procedures be required, our strategic planning department shall designate a person who shall be responsible for handling the approval procedures.

### *Environmental regulations*

According to our PRC Legal Advisers, Quanzhou Baofeng is required to submit an environmental impact statement to the competent PRC authority for examination and approval prior to carrying out any construction work in respect of a construction project. Upon completion of the construction project, certain acceptance procedures and checks should be conducted to ensure that the construction of the required environmental protection facilities has been properly completed. Quanzhou Baofeng has designated staff members who are responsible for ensuring that we would comply with all such laws and regulations. However due to staff turnover in the past, Quanzhou Baofeng had inadvertently overlooked the statutory time limit to conduct acceptance checks and procedures upon completion of certain construction projects in the past. Nevertheless, it has subsequently undergone all such procedures retroactively. Further, the relevant local PRC authority has issued a confirmation stating that as at the date of the confirmation it will not impose any penalties on Quanzhou Baofeng since Quanzhou Baofeng has subsequently undergone all the necessary procedures retroactively. According to our PRC Legal Advisers, the relevant local PRC authority was authorised to issue the confirmation.

Should we have any construction plans in the future, we shall seek advice from our legal advisers and other relevant professionals as to whether we will be required to undergo any procedures prescribed by the relevant environmental laws and regulations, and if so, the actual procedures involved. Should any such procedures be required, our strategic planning department shall designate a person who shall be responsible for handling the approval procedures.

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### *Land use rights*

On 6 January 2006, Quanzhou Baofeng entered into an agreement (“**Co-operation Agreement**”) with an Independent Third Party (“**Third Party**”) to co-operatively acquire the land use rights in respect of the New Land and set up a joint venture project company for manufacturing of footwear related raw materials on the New Land. The Co-operation Agreement provided that, among others, (i) Quanzhou Baofeng shall be responsible for the procedures of obtaining the land use rights of the New Land whereas the Third Party should be responsible for paying all the costs relating to the New Land; and (ii) if the parties are successful in obtaining the land use rights in respect of the New Land, the parties shall set up a joint venture project company and that before the parties have done so, the beneficial ownership of the land use rights in respect of the New Land shall rest with the Third Party. Given the Third Party did not wish to obtain the land use rights under his individual name, the Third Party did not enter into any land grant contract with the relevant PRC authority. On 30 June 2007, a State-owned land use rights grant contract was entered into between Quanzhou Baofeng and the relevant local PRC authority pursuant to which the land use rights of the New Land were contracted to be granted to Quanzhou Baofeng at a consideration of RMB5,377,481 (in the form of land premium) which was to be paid by 30 August 2007. Since 2006, a development company, an Independent Third Party, has been engaged for the provision of services relating to the development and construction, demolition and relocation work for the New Land. In early 2010, the Third Party indicated that he was minded not to proceed with developing the New Land whereas we intended to acquire a piece of land to expand our production capacity. Upon negotiation between Quanzhou Baofeng and the Third Party, the parties entered into a termination agreement on 8 April 2010, which provided that the Co-operation Agreement shall be terminated upon payment of approximately RMB24.5 million by Quanzhou Baofeng to the Third Party. This sum represents (i) the aggregate cost that the Third Party had paid in relation to the New Land up to the date of the termination agreement, including the land premium of approximately RMB5.4 million, the service fees in relation to the development and construction, demolition costs and compensation paid in relation to the New Land in a total amount of approximately RMB16.2 million, and (ii) the interest of approximately RMB2.9 million which was calculated at 6% per annum of the above costs from the relevant payment dates. It was agreed that on such payment by Quanzhou Baofeng to the Third Party, all interests in relation to the New Land would rest with Quanzhou Baofeng. Quanzhou Baofeng made full payment of the said amount to the Third Party by 7 June 2010 and the Co-operation Agreement was terminated on the same day. Quanzhou Baofeng was subsequently granted the land use rights in respect of the New Land.

Quanzhou Baofeng did not notify the relevant local PRC authority that it had entered into the Co-operation Agreement with the Third Party, which provided that the beneficial ownership of the land use rights in respect of the New Land shall rest with the Third Party until the parties have together set up a joint venture project company, as it was not aware that it had such an obligation. However, according to our PRC Legal Advisers, the relevant local PRC authority ought to have been notified of the matter. Nevertheless, the relevant local PRC authority has subsequently issued a confirmation stating that it will not take any action in respect of Quanzhou Baofeng’s failure to disclose the above information to the relevant local PRC authority and that it will not withdraw the land use rights certificate granted to Quanzhou

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Baofeng. According to our PRC Legal Advisers, the relevant local PRC authority was authorised to issue the confirmation. In addition, our PRC Legal Advisers further advised that the validity of the State-owned land use rights grant contract in respect of the New Land shall not be affected by the Co-operation Agreement or the termination agreement entered into by the parties and that the State-owned land use rights grant contract is valid and enforceable.

As mentioned above, Quanzhou Baofeng was required to pay to the relevant local PRC authority the related land premium by 30 August 2007. A development company was engaged for provision of various services regarding the New Land. It was understood between Quanzhou Baofeng and the development company that a certain sum of money would be paid to the development company covering the fee for provision of services regarding the New Land and the related land premium to be paid to the relevant local PRC authority. The related land premium was paid to the development company on 19 June 2007 by the Third Party on Quanzhou Baofeng's behalf on the understanding that the development company would pay the amount to the relevant local PRC authority by 30 August 2007 on Quanzhou Baofeng's behalf. However, the development company did not do so until 4 May 2009. According to the State-owned land use rights grant contract, late payment of the related land premium would attract a daily penalty interest. The development company is still being engaged for services relating to relocation work for the New Land which is expected to be finished in the first half of 2011. Services fees in relation to the development and construction and compensation paid in relation to the demolition and relocation regarding the New Land have been paid to the development company. Such services fees together with the land premium paid to the development company constituted the major part of the sum of RMB24.5 million mentioned above.

Moreover, according to the State-owned land use rights grant contract, Quanzhou Baofeng was required to commence construction on the New Land by 30 December 2007. If Quanzhou Baofeng fails to commence construction within one year after the specified date without a valid reason permitted by the relevant PRC laws, it may be liable to pay a penalty for breach of the contract calculated at a daily rate. If Quanzhou Baofeng fails to commence construction more than one year after the specified date, the New Land may be deemed as idle land. If Quanzhou Baofeng fails to commence construction for more than two years after the specified date without a valid reason permitted by the relevant PRC laws, in addition to the New Land being deemed as idle land, the relevant local PRC authority may also confiscate the New Land. Quanzhou Baofeng has not been able to commence construction within the specified time as Quanzhou Baofeng has been carrying out certain preparatory work including land clearance, which according to our PRC Legal Advisers, is indispensable and must be completed before construction can commence. Quanzhou Baofeng plans to commence construction in the first half of 2011.

The relevant local PRC authority has subsequently issued a confirmation agreeing not to claim any of its rights in respect of the late payment of related land premium (including the right to claim any penalty interest for the late payment) and confirming that it would not characterise the New Land as idle land by reason of Quanzhou Baofeng's delay in commencing construction on the New Land. There is no designated construction commencement date for the construction on the New Land according to the confirmation issued by the relevant local

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PRC authority. According to our PRC Legal Advisers, the relevant local PRC authority was authorised to issue the confirmation. As such, our PRC Legal Advisers are of the view that the relevant local PRC authority will not characterise the New Land as idle land and it will not impose an idle land fee on the New Land. Our PRC Legal Advisers have also confirmed that there are no other imperfections in title in respect of the New Land. Should our strategic planning department encounter any material issues or have any queries relating to the New Land, we shall seek professional advice from our PRC Legal Advisers and other relevant professionals before making a decision as to the next step forward.

### *Small house built at the Huoju Production Facility*

There is a small house with a gross floor area of approximately 30 sq.m. built on a parcel of land where the Huoju Production Facility is situated. As our Directors believe that as the small house only occupies a gross floor area of approximately 30 sq.m. and does not affect our business operations in any material way, Quanzhou Baofeng has not obtained certain approvals including the construction project planning licence relating to the construction of the small house. According to our PRC Legal Advisers, if the relevant local PRC authority takes the view that it would be possible for Quanzhou Baofeng to take measures to eliminate the impact of the construction of the small house on the implementation of certain urban and rural plans, Quanzhou Baofeng may be ordered to take remedial action within a specified time by applying for a construction project planning licence retroactively and be imposed a fine of not less than 5% of the construction cost of the house but not more than 10% thereof. If the relevant local PRC authority takes the contrary view, Quanzhou Baofeng may be ordered to demolish the house within a certain time limit and may also be imposed a fine of not more than 10% of the construction cost of the house.

Furthermore, Quanzhou Baofeng has not undergone the quality inspection and acceptance procedures required under PRC law in respect of the small house. According to our PRC Legal Advisers, Quanzhou Baofeng may therefore be ordered to take remedial action and may be imposed a fine between 2% and 4% of the contractual price for the construction project. The maximum aggregate fine that may be imposed on Quanzhou Baofeng with respect to the above instances of non-compliance is expected to be minimal. According to our PRC Legal Advisers, save as disclosed above, there are no other imperfections in title in material respects in relation to the Huoju Production Facility. In the event that we are ordered to demolish the small house, our Directors believe that our Group's operation will not be affected.

## **NON-COMPLIANCE WITH THE COMPANIES ORDINANCE**

### *Section 122 of the Companies Ordinance*

Pursuant to section 122 of the Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause the profit and loss account and balance sheet of the company to be made up and laid before the company at each of its annual general meeting.

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On 30 June 2009, our Company as the sole member of Baof HK adopted a set of written resolutions (the “**Baof HK 2009 Resolutions**”) purported to do everything that was required or intended to be done at Baof HK’s annual general meeting for the year 2009, in which it was noted that no financial reports were available for presentation. Our Directors confirmed that the financial reports were not available for presentation at that time because the accounts for the period from 7 January 2008, which was the date of incorporation of Baof HK, to 31 December 2008 were still being prepared and had not been audited. Subsequently, the audited accounts of Baof HK for the period from 7 January 2008 to 31 December 2008 (the “**Baof HK 2008 Accounts**”) were approved and authorised for issue by the board of directors of Baof HK on 15 September 2009. On 30 September 2009, the directors of Baof HK attempted to rectify the absence of presentation of accounts for the purpose of the written resolutions by the sole member dated 30 June 2009 by presenting the Baof HK 2008 Accounts to our Company, which approved the Baof HK 2008 Accounts by way of written resolutions.

On 11 September 2010, our Company as the sole member of Baof HK adopted a set of written resolutions (the “**Baof HK 2010 Resolutions**”) purported to do everything that was required or intended to be done at Baof HK’s annual general meeting for the year 2010, in which it was noted that no financial reports were available for presentation. Our Directors confirmed that the financial reports were not available for presentation at that time because the accounts for the year ended 31 December 2009 were still being prepared and had not been audited. On 11 November 2010, the audited accounts of Baof HK for the year ended 31 December 2009 (the “**Baof HK 2009 Accounts**”) were presented to our Company, on which date the Baof HK 2009 Accounts were approved.

### *Section 111 of the Companies Ordinance*

Pursuant to section 111 of the Companies Ordinance, a company incorporated in Hong Kong is required in each year (except for the first eighteen months from its incorporation) to hold an annual general meeting in addition to any other meetings in that year, and is required to specify the meeting as such in the notices calling it. However, a company is not required to hold such meeting if (i) everything that is required or intended to be done at the meeting (by resolution or otherwise) is done by a resolution or resolutions in accordance with the Companies Ordinance; and (ii) a copy of each document (including any accounts or records) which would be required to be laid before the company at the meeting or otherwise produced at the meeting is provided to each member of the company before or at the same time as the resolution or resolutions, as the case may be, is or are provided to the member.

Although the Baof HK 2009 Resolutions and the Baof HK 2010 Resolutions were intended by the sole member of Baof HK to do everything that was required or intended to be done at Baof HK’s annual general meeting for 2009 and 2010, respectively, the requirements under section 111 of the Companies Ordinance for Baof HK to hold an annual general meeting for each of the year 2009 and 2010 were not satisfied as no accounts were provided by the sole member of Baof HK before or at the same time as the Baof HK 2009 Resolutions or the Baof HK 2010 Resolutions.

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### *Court Order Granted*

On 12 November 2010, our Company and the directors of Baof HK applied to the High Court of Hong Kong for an order (i) to substitute for the requirement to lay the Baof HK 2008 Accounts at the time of the Baof HK 2009 Resolutions with a requirement to lay the Baof HK 2008 Accounts at the time when it was adopted by our Company as the sole shareholder of Baof HK on 30 September 2009 by written resolutions; and (ii) to substitute for the requirement to lay the Baof HK 2009 Accounts at the time of the Baof HK 2010 Resolutions with a requirement to lay the Baof HK 2009 Accounts at the time when it was adopted by our Company as the sole shareholder of Baof HK on 12 November 2010 by written resolutions.

On 9 December 2010, the requested court order was granted by the High Court of Hong Kong. Pursuant to the court order granted, the requirements under section 111 of the Companies Ordinance for Baof HK to hold an annual general meeting for each of the years 2009 and 2010 have been satisfied by the Baof HK 2009 Resolutions and Baof HK 2010 Resolutions, respectively; and the requirements under section 122 of the Companies Ordinance to lay the accounts of Baof HK at Baof HK's annual general meetings for each of the years 2009 and 2010 have been satisfied by the laying of the Baof HK 2008 Accounts on 30 September 2009 and the laying of the Baof HK 2009 Accounts on 11 November 2010, respectively.

### *Reasons for Non-Compliance*

Since the incorporation of Baof HK on 7 January 2008, the management team which was responsible for the day-to-day operations of Baof HK had limited understanding of the relevant rules and regulations under Hong Kong laws and had retained and relied on a company secretarial service company for compliance with such rules and regulations. However, the directors had not been properly advised of the requirements under sections 111 and 122 of the Companies Ordinance and believed that they were in compliance with such rules and regulations, by means of the Baof HK 2009 Resolutions and the Baof HK 2010 Resolutions and the subsequent adoption of the audited accounts when such accounts became available. In September 2010, our Directors were advised of the abovementioned non-compliance by the legal advisers to our Company, Orrick Herrington & Sutcliffe, who identified such issues upon review of the records of Baof HK in preparation for the Global Offering.

### *Potential Liabilities Arising Out of the Non-Compliances*

As maximum penalty for non-compliance with section 111 of the Companies Ordinance, the company and each officer (that is, each director, manager or secretary) of the company who is in default shall be liable to a fine of HK\$50,000.

As maximum penalty for non-compliance with section 122 of the Companies Ordinance, each director of the company shall be liable to a fine of HK\$300,000 and, if the court is of the opinion that such offence was committed willfully, a 12-month imprisonment.

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### *Preventive measures*

To avoid future occurrences of such non-compliance, our compliance adviser, CMB International and our company secretary, Mr. Au Wai Keung, who is an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales with extensive accounting and auditing experience, will assist us to ensure compliance with the Companies Ordinance by our Group. Further, our audit committee will oversee the financial reporting and internal control procedures of our Company. Our Company also intends to engage Hong Kong legal advisers to continue to provide legal advice to us after the Listing. In addition, to further strengthen the knowledge of our Directors as to the relevant requirements of the Companies Ordinance, our Directors have attended a training in this regard provided by our legal advisers on 8 January 2011. After Listing, we also plan to engage a Hong Kong legal adviser to provide training to our Directors on the latest developments of various compliance matters that relate to us including the Listing Rules and the Companies Ordinance, from time to time, as and when needed.

### **NO SIGNIFICANT INTERRUPTIONS**

There had been no interruptions in our business that may have had a significant effect on our financial position during the Track Record Period.

### **PROPERTY**

As at the Latest Practicable Date,

#### ***Huoju Production Facility***

- we owned and occupied a parcel of land situated at Huoju Industrial Zone, Jiangnan Street, Licheng District, Quanzhou City, Fujian Province, the PRC having a site area of approximately 18,822 sq.m. We built six blocks of buildings on a parcel of land comprising warehouses, factories and dormitories, with an aggregate gross floor area of approximately 51,468 sq.m.. We have obtained the state-owned land use rights certificate in relation to the land and the building ownership certificates for the six buildings. The land use rights were granted for industrial use expiring on 18 December 2058. According to our PRC Legal Advisers, save as to certain instances of non-compliance with PRC laws and regulations in relation to a small house of a gross floor area of approximately 30 sq.m. built on the parcel of land, there are no imperfections in title in material respects in relation to this property. As regards the imperfections in title in respect of the small house, please see the sub-section headed "Litigation and Legal Compliance" in this section of the prospectus for further details.



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### ***New Land***

- we owned a parcel of land with a site area of approximately 36,581.5 sq.m. situated at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, the PRC. The state-owned land use rights certificate in relation to the land was obtained on 18 June 2010 and the land use rights were granted for industrial use expiring on 30 August 2057.

### ***High-Tech Asset Production Facility***

- we leased the High-Tech Asset Production Property from a third party which has a gross floor area of approximately 32,210 sq.m..

As advised by our PRC Legal Advisers, the third-party landlord of the High-Tech Asset Production Property has failed to obtain the required planning licence for constructing the High-Tech Asset Production Facility as the facility was not constructed in accordance with the authorised planning of the local town. The lack of relevant construction project planning licences may result in the invalidity of the relevant tenancy agreement. We may not be able to defend our leasehold interests against the relevant PRC authorities should they decide to enforce their rights to the High-Tech Asset Production Property. For more information, please see the sub-section headed “Risk factors — Our operations may be subject to disruption arising from certain imperfections in title in respect of the High-Tech Asset Production Property” in this prospectus.

Save as disclosed above, as at the Latest Practicable Date, we were not aware of any challenge being made by any third party on the titles of any of the above properties which might affect our current occupation. For further details in relation to the properties we occupy, please see the section headed “Property Valuation” in Appendix IV to this prospectus.

## **INSURANCE**

We carry insurance to protect against a range of contingencies, including, among others, loss and theft of, and damage to, property, plant and equipment, and inventory in all of our production facilities and warehouses, and the social insurances required under PRC law. For information on the requirements as to insurance under PRC law, please see the section headed “Regulations” in this prospectus. We did not make any material insurance claims during the Track Record Period.

We do not have insurance coverage for product liability. However, as confirmed by the PRC Legal Advisers, this practice is in line with the general industry practice in the PRC as product liability insurance is not required under the PRC law. As such, our Directors consider that it is not necessary for us to purchase such insurance and that our insurance coverage in general is adequate for our operations.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

The Board consists of four executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title
Mr. ZHENG Liuhe (鄭六和先生)	73	Chairman and executive Director
Mr. ZHANG Aiguo (張愛國先生)	53	Vice-chairman and executive Director
Mr. CHEN Qingwei (陳慶偉先生)	56	Chief executive officer and executive Director
Mr. ZHENG Jingdong (鄭景東先生)	45	Executive Director
Mr. SZE Ching Bor (史清波先生)	63	Non-executive Director
Mr. CHEUNG Miu (張渺先生)	40	Non-executive Director
Professor BAI Changhong (白長虹教授)	45	Independent non-executive Director
Mr. LEE Keung (李強先生)	41	Independent non-executive Director
Ms. AN Na (安娜女士)	51	Independent non-executive Director

### Executive Directors

#### Mr. ZHENG Liuhe (鄭六和先生), aged 73

Mr. Zheng Liuhe, the Chairman and an executive Director, 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 since 28 March 2007. He has also been a director of Baof HK 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 and 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.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. ZHANG Aiguo** (張愛國先生), aged 53

Mr. Zhang, 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), aged 56

Mr. Chen, 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), aged 45

Mr. Zheng Jingdong, 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 business in 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 from 1994 to 1999.

Mr. Zheng Jingdong is a relative of Mr. Sze, a non-executive Director and a Controlling Shareholder.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Non-executive Directors

#### Mr. SZE Ching Bor (史清波先生), aged 63

Mr. Sze is the founder of our Group and a non-executive Director. He was appointed as a Director on 10 March 2008. When Mr. Zheng Liuhe, Mr. Zhang Aiguo and Mr. Zheng Jingdong, who have been handling the daily management and operation of our Group, were appointed as Directors on 21 July 2008, joined the Board together with Mr. Chen Qingwei, who has been a Director since 10 March 2008, Mr. Sze believed it would no longer be necessary for him to be a Director on the Board. Therefore, he resigned on the same date in order to spend more time on his personal affairs. In 2010, when our Group began to prepare for the proposed Global Offering, which will be a significant development for our Group, Mr. Sze considered it appropriate and desirable for him to act as a Director of our Company to supervise the affairs of our Group more closely and provide guidance to the management team of our Group directly. To facilitate the Listing and continued effective management of our Group afterwards, Mr. Sze, who does not hold an executive position in our Group and is not involved in the day-to-day operations of our Group, has been appointed as a non-executive Director with effect from 30 June 2010. He has become a director of Quanzhou Baofeng since 28 March 2007 and was appointed as a director of Baof HK on 8 January 2008. He has been responsible for the corporate strategies, planning and business development of our Group. Since October 2000, Mr. Sze has been a partner of Po Fai Travel Trading (a general partnership formed by Mr. Sze and Mr. Tsang) and has been responsible for its management.

Mr. Sze is a relative of Mr. Zheng Jingdong, an executive Director.

#### Mr. CHEUNG Miu (張渺先生), aged 40

Mr. Cheung, a non-executive Director, has been a Director since 22 September 2008. Mr. Cheung was appointed by CITIC Capital as a director of Baof HK on 22 September 2008 pursuant to the Shareholders' Agreement dated 22 September 2008 which regulated the rights and obligations of the then shareholders of our Company and the holder of the 2008 Exchangeable Note. He was appointed as a director of Quanzhou Baofeng on 21 October 2008. He has more than 15 years of experience in investment, banking and business development. He joined the Commonwealth Bank of Australia as an executive of the corporate finance department in January 1998. He subsequently joined Ka Wah Capital Limited in 1999 and was transferred to CITIC Capital Holdings Limited in 2002 and is currently a senior managing director of the company. He was an assistant manager of the investment bank department of Societe Generale Asia Limited from January 1995 to February 1996. He was an officer in the business development department of Bank of China (Hong Kong) Limited from July 1992 to July 1994. 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.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Independent non-executive Directors

#### **Professor BAI Changhong** (白長虹教授), aged 45

Professor Bai 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 industry development. 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 CCTV Green 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), aged 41

Mr. Lee 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 served as an accountant (group accounts) in Four Seas Mercantile Limited (四洲貿易有限公司) whose principal activities are trading in snack foods, confectionery and beverages and which is a wholly-owned subsidiary of Four Seas Mercantile Holdings Limited (四洲集團有限公司) (stock code: 374), a snack food trading company listed on the Main Board of the Stock Exchange, from September 1994 to May 1995. He worked as an internal auditor and an audit trainee during the period from September 1993 to September 1994 and from January 1992 to July 1993, respectively. 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), aged 51

Ms. An Na 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

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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(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.

Please see the sub-section headed "Further information about our Directors — 1. Directors' service contracts" in Appendix VI to this prospectus for information on our Directors' service agreements.

As at the Latest Practicable Date, save as disclosed in the sub-section headed "Statutory and General Information — Disclosure of Interests" in Appendix VI to this prospectus, our Directors did not have any interest or short positions in the shares or underlying shares in our Company within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other information in respect of our Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders.

### SENIOR MANAGEMENT

The following table sets forth certain information in respect of our senior management:

Name	Age	Position/Title
Mr. KWOK Chun Ching (郭鎮清先生)	43	Chief Financial Officer
Mr. ZHENG Guozhang (鄭郭璋先生)	38	General Manager of the domestic sales division
Mr. ZENG Jianbo (曾劍波先生)	45	Manager of the procurement division

#### Mr. KWOK Chun Ching (郭鎮清先生), aged 43

Mr. Kwok 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)管道塗敷服務有限公司 (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. As at the Latest Practicable Date, Mr. Kwok had not been the subject of any proceedings or investigations in relation to the suspension, delisting and/or liquidation of Siu-Fung. He practised as a junior audit assistant and an audit junior in two accounting firms from April 1992 to June 1992 and

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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from June 1992 to January 1993, respectively. 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), aged 38

Mr. Zheng Guozhang 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), aged 45

Mr. Zeng 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.

Quanzhou Travel, a company in which certain Directors and senior management of our Group once held management positions, is a foreign-invested company wholly owned by Po Fai Travel Trading, a general partnership set up by Mr. Tsang and Mr. Sze. It was established as early as 19 April 1989 by Mr. Tsang and Mr. Sze and intended to manufacture plastic slippers and travel hats. Quanzhou Baofeng was established by Mr. Sze and Mr. Tsang on 14 July 1999 for manufacturing footwear. Since its establishment, the footwear business of Quanzhou Baofeng has grown gradually. Mr. Tsang and Mr. Sze began to transfer their focus towards their footwear business and therefore the production activities at Quanzhou Travel gradually declined. Having transferred to Quanzhou Baofeng the trademark of "Baofeng" on 12 March 2005 and the trademark of "Baoree" on 21 January 2008, Quanzhou Travel currently does not have any business operation. Other than Mr. Sze's equity interests in Po Fai Travel Trading which wholly owns Quanzhou Travel, none of our Directors hold any equity interests or any position in Quanzhou Travel. Save as disclosed above, Quanzhou Travel does not have any past or present relationship with our Group, our Directors, Mr. Tsang and Po Fai Travel Trading.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### COMPANY SECRETARY

**Mr. AU Wai Keung** (區偉強先生), aged 39

Mr. Au joined our Group on 22 May 2010 as an authorised representative of our Company and was appointed as our Company's Company Secretary on 8 January 2011. Mr. Au is a director, a shareholder and a co-founder of ComSec Corporate Advisory Limited, Arion and Partners Limited and Orion CPA Limited. Prior to joining our Group, Mr. Au was a consultant of a professional firm of Certified Public Accountants from October 2006 to May 2007. He was a financial controller of an information technology company from August 2004 to August 2006. He was a chief financial officer of Universal Technologies Holdings Limited (stock code: 1026), a company listed on the Main Board of the Stock Exchange, from February 2001 to June 2004. 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. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

### BOARD COMMITTEES

#### Audit committee

Pursuant to Rule 3.21 of the Listing Rules, an audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the Code of Corporate Governance Practices 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 Lee Keung, Bai Changhong and An Na. Lee Keung is the chairperson of the audit committee.

#### Remuneration committee

We established the remuneration committee on 8 January 2011 with written terms of reference in compliance with the Code of Corporate Governance Practices 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, An Na, Lee Keung, and Bai Changhong. An Na is the chairperson of the remuneration committee.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Nomination committee

We established the nomination committee on 8 January 2011 with written terms of reference in compliance with the Code of Corporate Governance Practices 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, Bai Changhong, An Na and Lee Keung. Bai Changhong is the chairperson of the nomination committee.

### DIRECTORS' REMUNERATION

The aggregate amount of remuneration including fees, salaries and other allowances, benefits in kind (including contribution to the pension scheme on behalf of the Directors) or any bonuses paid by our Group to our Directors for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 were approximately RMB0.7 million, RMB1.0 million, RMB0.7 million and RMB0.8 million, respectively. The aggregate amount of remuneration paid by our Group to our Directors for the year ended 31 December 2010 was RMB1.5 million.

Our Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of our Group.

For the years ended 31 December 2007, 2008, 2009 and 2010 (the "**Relevant Period**"), no remuneration was paid by our Group to, or receivable by, our Directors or the five largest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors, past Directors or the five highest paid individuals for the Relevant Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Group.

None of our Directors waived any emoluments during the Relevant Period.

Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors and the five highest paid individuals during the Relevant Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors payable in respect of the year ending 31 December 2011 is estimated to be approximately RMB3.3 million.

We have conditionally adopted the Share Option Scheme pursuant to which our Directors, senior management and other employees may be granted options to subscribe for Shares. Further information on the Share Option Scheme is set forth in sub-section headed "Statutory and General Information — Share Option Scheme" in Appendix VI to this prospectus.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### STAFF

As at 30 September 2010, our Group employed a total of 2,386 employees. The table below sets forth the number of employees in the respective functions of our Group:

<b>Function</b>	<b>Number of employees</b>
Management and administration	82
Sales and marketing	182
Procurement	31
Finance	14
Production	1,970
Quality control	41
R&D	66

### SOCIAL INSURANCES AND HOUSING PROVIDENT FUND

In compliance with the applicable statutory requirements in the PRC and existing requirements of the local government, our Group participates in a pension contribution plan, a work-related injury insurance plan, an unemployment insurance plan, a medical insurance plan and a maternity insurance plan for our employees. The contributions paid for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 were approximately RMB2.1 million, RMB4.3 million, RMB3.4 million and RMB2.7 million, respectively.

Quanzhou Baofeng has not made any housing provident fund contributions for its employees for the period prior to April 2010. However, on 8 June 2010, Quanzhou Baofeng underwent the requisite registration procedures, opened housing provident fund accounts on 8 June 2010 and paid the outstanding housing provident fund contributions for the period from April to June 2010. Since then, Quanzhou Baofeng has been paying and will continue to pay the housing provident fund contributions as and when they fall due. For further details, please see the sub-section headed “Our Business — Litigation and Legal Compliance — Housing provident fund contributions” in this prospectus.

Our Directors confirm that we have complied with the relevant labour and social welfare laws and regulations save as disclosed in this prospectus.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### COMPLIANCE ADVISER

We intend to appoint CMB International as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after Listing.

### MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. At present, two non-executive Directors, one of our independent non-executive Directors and our Company Secretary are ordinarily resident in Hong Kong but none of our other six Directors, including all four executive Directors and the other two independent non-executive Directors, are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Au Wai Keung, our Company Secretary and who is ordinarily resident in Hong Kong, and Mr. Chen Qingwei, our executive Director. Each of the two authorised representatives has been duly

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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authorised to communicate on behalf of us with the Stock Exchange and each of them will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail;

- (b) We will appoint a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our additional communication channel with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;
- (c) Both the authorised representatives have means to contact all members of the Board (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Board for any matters. We will implement a policy whereby (a) each Director (including the independent non-executive Directors) will provide his or her respective mobile phone number, office phone number, fax number and e-mail address to the authorised representatives; (b) each Director (including the independent non-executive Directors) will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (c) each Director (including the independent non-executive Directors) will provide his or her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange; and
- (d) All Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering, Mr. Sze, who is a non executive Director, Best Mark and Capital Vision will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming that the Over-allotment Option is not exercised). Other than their interest in our Company, as at the Latest Practicable Date, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Reorganisation; or (ii) may, directly or indirectly, compete with our Group's business.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering.

#### Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Sze, a Controlling Shareholder, is one of our non-executive Directors.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group. None of our Directors have any interests in any business apart from our Group's business which competes or is likely to compete, either directly or indirectly, with our Group's business. Other than Mr. Sze, who is a director of both Best Mark and Capital Vision, none of the Company's Directors or senior management member holds any executive position or participates in the management or operation of Best Mark and Capital Vision.

Our Directors are satisfied that our senior management team is able to perform their roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Directors confirmed that our Group will not enter into any other transactions of similar nature with our Connected Persons and their associates after the Listing that will affect our operational independence.

### Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Save for the Exchangeable Note Securities as described in the sub-section headed "Pre-IPO Investment by CITIC Capital — The 2008 Exchangeable Note" in this prospectus, our Directors confirm that as at the Latest Practicable Date, all financial assistance, including amounts due to or from, and loans or guarantees provided by or to our Controlling Shareholders, were repaid or released or otherwise settled in full and our Group's treasury, accounting and finance functions are independent of our Controlling Shareholders. The Exchangeable Note Securities will be released and discharged upon the exchange of the 2008 Exchangeable Note in full prior to the commencement of trading of the Shares on the Stock Exchange. Therefore, there is no financial dependence on our Controlling Shareholders.

### DEED OF NON-COMPETITION

The Controlling Shareholders have entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of our Company, pursuant to which the Controlling Shareholders have irrevocably, jointly and severally undertaken to our Company (for ourselves and for the benefit of its subsidiaries) that such Controlling Shareholder would not and would procure that its or his associates (except any members of our Group) would not, during the restricted period (as defined in the Deed of Non-competition), either on such Controlling Shareholder's own account or in conjunction with or on behalf of any person, partnership or entity, in any form or capacity, among other things, directly or indirectly carry on, participate or be interested or engaged in or acquire or hold any business which is or may be in competition with the business of any member of our Group from time to time (the "**Restricted Business**").

The above undertaking does not apply to the holding by our Controlling Shareholders of interests in the shares of a company other than our Group which are listed on a recognised stock exchange, provided that:

- (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (ii) the total number of the shares held by our Controlling Shareholders and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective associates in aggregate.

The “restricted period” as defined in the Deed of Non-competition refers to the period during which (i) the Shares of our Company are traded and remain listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, such Controlling Shareholder or such Controlling Shareholder’s associate directly or indirectly holds any equity interest in our Company; and (iii) the relevant Controlling Shareholder and/or his/its associates jointly or severally are entitled to exercise or control the exercise of 30% or more in aggregate of the voting power at general meetings of our Company.

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage any conflict of interests arising from the competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (ii) our Controlling Shareholders have undertaken to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company; and
- (iv) our Controlling Shareholders will make an annual declaration in relation to compliance with the Deed of Non-competition in the annual reports of our Company.

## SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), so far as our Directors are aware, the following persons are expected to have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Sze <sup>(1)</sup>	Interest in controlled corporation	519,035,767	51.90%
Ms. Tsang Shuk Ping <sup>(2)</sup>	Spousal interest	519,035,767	51.90%
Best Mark	Beneficial Owner	473,876,157	47.39%
CITIC Capital	Beneficial Owner	85,325,500	8.53%
Multifield International Limited <sup>(3)</sup>	Interest in controlled corporation	85,325,500	8.53%
CITIC Capital Investment Holdings Limited <sup>(4)</sup>	Interest in controlled corporation	85,325,500	8.53%
CITIC Capital Holdings Limited <sup>(5)</sup>	Interest in controlled corporation	85,325,500	8.53%
中國中信集團公司 CITIC Group (“CITIC Group”) <sup>(6)</sup>	Interest in controlled corporation	85,325,500	8.53%
Warlord Investment Corporation <sup>(7)</sup>	Interest in controlled corporation	85,325,500	8.53%
China Investment Corporation <sup>(8)</sup>	Interest in controlled corporation	85,325,500	8.53%
The Royal Bank of Scotland N.V. <sup>(9)</sup>	Interest in controlled corporation	85,325,500	8.53%
The Royal Bank of Scotland Group plc. <sup>(10)</sup>	Interest in controlled corporation	85,325,500	8.53%

*Notes:*

- Mr. Sze is deemed to be interested in the Shares held by Best Mark and Capital Vision. Best Mark and Capital Vision are wholly owned and controlled by Mr. Sze and held 473,876,157 and 45,159,610 Shares, respectively, representing approximately 47.39% and 4.52%, respectively, of the issued share capital of our Company upon completion of the Global Offering and the Capitalisation Issue, without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.*
- Ms. Tsang Shuk Ping, the spouse of Mr. Sze, is deemed to be interested in Mr. Sze's interests in Best Mark and Capital Vision.*



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## SUBSTANTIAL SHAREHOLDERS

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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. *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..*

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Company.

## SHARE CAPITAL

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following the Global Offering and the Capitalisation Issue will be as follows:

	US\$
<b>Authorised share capital:</b>	
5,000,000,000 Shares	50,000,000

**Issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:**

	US\$	<u>Approximate percentage of issued share capital</u>
<i>(Shares)</i>	<i>US\$</i>	<i>(%)</i>
102,719 Shares in issue as at the date of this prospectus	1,027.19	0.01
749,897,281 Shares to be issued under the Capitalisation Issue	7,498,972.81	74.99
<u>250,000,000</u> Shares to be issued under the Global Offering	<u>2,500,000.00</u>	<u>25</u>
<u>1,000,000,000</u> Total	<u>10,000,000.00</u>	<u>100</u>

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Global Offering and the Capitalisation Issue will be as follows:

	US\$
<b>Authorised share capital:</b>	
5,000,000,000 Shares	50,000,000

**Issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:**

	US\$	<u>Approximate percentage of issued share capital</u>
<i>(Shares)</i>	<i>US\$</i>	<i>(%)</i>
102,719 Shares in issue as at the date of this prospectus	1,027.19	0.01
749,897,281 Shares to be issued under the Capitalisation Issue	7,498,972.81	71.25
<u>302,500,000</u> Shares to be issued under the Global Offering	<u>3,025,000.00</u>	<u>28.74</u>
<u>1,052,500,000</u> Total	<u>10,525,000.00</u>	<u>100</u>

Notes:

- (1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.
- (2) Assuming the redemption of the Preference Share having taken place. The Preference Share was in issue as at the date of this prospectus. It will be redeemed upon exchange of the 2008 Exchangeable Note in full as set out in the section headed "History, Reorganisation and Group Structure" in this prospectus.

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## SHARE CAPITAL

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### Ranking

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus, save for the entitlement under the Capitalisation Issue.

### Share Option Scheme

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the sub-sections headed “Statutory and General Information — Share Option Scheme” in Appendix VI to this prospectus.

### General mandate to issue Shares

Conditional on conditions as stated in the sub-section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option and options to be granted under the Share Option Scheme); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s shareholders in a general meeting.

For further details of this general mandate, please see the sub-section headed “Statutory and General Information — Further Information about our Company — 3. Written resolutions of all Shareholders passed on 8 January 2011” in Appendix VI to this prospectus.

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## SHARE CAPITAL

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### **General mandate to repurchase Shares**

Conditional on conditions as stated in the sub-section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option and options to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the sub-section headed “Statutory and General Information — Further Information about our Company — 6. Repurchase of our Shares” in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s shareholders in a general meeting.

For further details of this repurchase mandate, see the sub-section headed “Written resolutions of all Shareholders passed on 8 January 2011” in Appendix VI to this prospectus.

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## FINANCIAL INFORMATION

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*The following discussion should be read in conjunction with our audited consolidated financial information together with the accompanying notes, as set forth in the Accountant's Report in Appendix I to this prospectus. Our financial information has been prepared in accordance with IFRS.*

*The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the section headed "Risk Factors" in this prospectus.*

### OVERVIEW

We are a leading supplier of slippers (including own-branded slippers) in the PRC. According to the Frost & Sullivan Report, we were the largest slipper supplier in the PRC based on revenue, production volume and sales volume in 2009 and for the six months ended 30 June 2010 and we were also the largest slipper supplier based on domestic sales revenue of own-branded slippers in the PRC for the six months ended 30 June 2010. 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.

We began our business as an OEM enterprise in 2001 and over the years, our OEM business has prospered. Revenue generated from our OEM business was approximately RMB409.2 million, RMB467.2 million and RMB467.9 million for each of the three years ended 31 December 2009, respectively. We maintained a steady growth in our OEM business for the nine months ended 30 September 2010, with a revenue from our OEM products of approximately RMB396.6 million for the nine months ended 30 September 2010, compared to approximately RMB333.3 million over the same period in 2009. According to the Frost & Sullivan Report, we were the largest exporter of slippers in the PRC in 2009 and for the six months ended 30 June 2010 in terms of both export volume and revenue. Our market position as the leading exporter among local PRC slipper suppliers is fully attributable to our success in the OEM business.

Subsequently, in 2007, we began to shift our business focus towards developing a branded product business, based on our belief that it has a greater growth potential and that such positioning would differentiate us from our major competitors. We first launched the Boree brand as a brand for slippers with fashionable designs. We developed this brand as we were confident that our fashionable designs would be well-received by the medium-to-high end consumer market in the PRC. We subsequently launched the Baofeng brand as a brand for traditional slippers targeted at the budget-to-medium market. We developed this brand with a view to establishing a broad market coverage and catering for the growing demand for slippers in the PRC. Sales revenue of our branded products grew significantly from approximately RMB20.1 million in 2007 to approximately RMB32.0 million in 2008 to approximately

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## FINANCIAL INFORMATION

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RMB120.6 million in 2009, representing a CAGR of approximately 145.0%. For the nine months ended 30 September 2010, sales revenue of our branded products was approximately RMB237.7 million, compared to approximately RMB92.7 million over the same period in 2009, representing an increase of approximately 156.4%.

We experienced a significant growth in revenue during the Track Record Period, mainly due to the rapid growth in revenue from our branded products, which had significantly outpaced the growth in revenue from our OEM products. Our total revenue for each of the three years ended 31 December 2009 was approximately RMB429.3 million, RMB499.3 million and RMB588.6 million, respectively, representing a CAGR of approximately 17.1%. Our total revenue for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB426.1 million and RMB634.3 million, respectively, representing an increase of approximately 48.9%. Our net profit for each of the three years ended 31 December 2009 was approximately RMB68.9 million, RMB58.2 million, RMB70.1 million, respectively. Our net profit for each of the nine months ended 30 September 2009 and 30 September 2010 was approximately RMB45.2 million and RMB104.5 million, respectively, representing an increase of approximately 131.2%.

### **The latest financial period reported by the reporting accountants required under the Companies Ordinance and the Listing Rules**

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Hong Kong Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31 December 2010 in this prospectus and a certificate of exemption has been granted by the SFC in this regard. Further, an application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the accountants' report for the full year ended 31 December 2010 in this prospectus, and such waiver has been granted by the Stock Exchange. For details, please see the sub-section headed "Waivers from Compliance with the Requirements under the Listing Rules and the Companies Ordinance — The latest financial period reported by the reporting accountants required under the Companies Ordinance and the Listing Rules" in this prospectus.

### **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising our Group on 25 March 2008. Since our Company and our subsidiaries were and are ultimately controlled by Mr. Sze both before and after the completion of the Reorganisation, the Reorganisation is considered as a business combination under common control and the financial information of our Group set out in the Accountants' Report in Appendix I to this prospectus has been prepared using the principles of merger accounting.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of our Group throughout the Track Record Period include the results and changes in equity and cash flows of all companies now comprising our Group, as if the current structure had been in

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## FINANCIAL INFORMATION

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existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2007, 2008 and 2009 and 30 September 2010 have been prepared to present the state of affairs of our Group as if the current structure of our Group had been in existence as at those dates.

The financial information of our Group set out in the Accountants' Report in Appendix I to this prospectus has been prepared in accordance with IFRS issued by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules. All IFRSs effective for the accounting periods commencing from 1 January 2007, 2008, 2009 and 2010, together with the relevant transitional provisions, have been adopted by our Group in the preparation of the financial information of our Group set out in the Accountants' Report in Appendix I to this prospectus.

### **FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including the factors discussed below, some of which are beyond our control.

#### **Changes in the economic conditions of the PRC and in our export destinations abroad may affect the level of demand for our products**

Any change in market demand levels for slippers both in the PRC and in our export destinations abroad may have a significant effect on our financial condition and results of operations. In particular, we are affected by changes in the economic condition of the PRC as the major proportion of our revenue is derived from the PRC. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, revenue generated from our products sold to customers in the PRC accounted for approximately 64.4%, 58.3%, 74.2% and 83.3%, respectively, of our total revenue. We also export a portion of our products to regions, including the United States, South East Asia, Europe and South America. Therefore, any change in economic conditions of the PRC or any of these regions abroad may affect our financial condition and results of operations.

The PRC economy has grown rapidly in recent years. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households in the PRC increased from approximately RMB10,493 in 2005 to approximately RMB17,175 in 2009, representing a CAGR of approximately 13.1%. Further, according to the National Bureau of Statistics of China, the total value of retail sales of PRC consumer goods grew at a CAGR of approximately 18.0% from approximately RMB6,835.3 billion in 2005 to approximately RMB13,267.8 billion in 2009. According to the Frost & Sullivan Report, the total value of retail sales of PRC consumer goods is projected to grow at a CAGR of 13.4% from 2010 to 2014, attaining RMB26,071.0 billion in 2014. The increase in the purchasing power of consumers in the PRC is expected to fuel the demand for slippers that bear a well-recognised brand, which may positively affect our results of operations.

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## FINANCIAL INFORMATION

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In light of the planned expansion of our branded product business which targets the PRC slipper market, the projected growth in the PRC economy may positively affect our financial condition and results of operations.

### **Our ability to continuously maintain and enhance our brand recognition**

We believe that our corporate name and our Boree brand are two of the most important contributors to our success to date. We rely on the reputation of our corporate name and our Boree brand to promote ourselves to existing and prospective customers. We also believe that the recognition of our Baofeng brand will strengthen in the future. Therefore, our financial condition and results of operations will also be affected by our ability to continuously maintain and increase the recognition of our brands. Many of our OEM customers recognise our corporate name as a reputable OEM supplier of slippers in the PRC. In order to preserve our image, we have strengthened our design capability and implemented a comprehensive quality control system to ensure a high standard of quality in our products. We have also implemented various marketing strategies to increase brand recognition, including television advertising, engaging entertainment celebrities, organising sales fairs and slipper design competitions. For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our advertising and marketing expenses for our branded products accounted for approximately 1.8%, 6.6%, 7.6% and 10.8% of our total revenue from our branded products for each of those periods, respectively. We intend to increase expenditure in advertising and marketing to further strengthen the recognition of our brands and secure our market position. If we are unsuccessful in promoting our brands, consumer acceptance of our brands may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

### **Our ability to attract quality distributors and the success of our distributors**

We work closely with our distributors in the expansion of our branded product business so as to capture the growth in demand for our branded slippers in the PRC. We intend to extend our geographical coverage and increase market penetration in our existing markets by encouraging and facilitating our distributors to set up flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong and expanding our sales team to enhance marketing management and service support. In 2010, we upgraded our ERP System, which has linked up our procurement, production, inventory, sales and financing systems and has thereby strengthened our supply chain management. We are also installing a DRP System at various Boree Sales Points to allow us to track inventory levels in a real-time environment and forecast demand for our products across the Boree Sales Points.

During the Track Record Period, save and except the World Expo Booth which was operated by us from May to October 2010, we did not own or operate any Sales Points ourselves. We rely on our distributors to distribute our branded products across various provinces and regions of the PRC. Our distributors are each responsible for establishing a sales network in their respective designated districts. There is no assurance that we will be able to attract a sufficient number of quality distributors to maintain or expand our



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geographical coverage. We also cannot assure you that our distributors have or will have sufficient resources to deal with unexpected changes in the regulatory, economic or business environment or other factors beyond their control. If they are unable to meet their target annual sales, we may not be able to develop our branded product business profitably or as we plan.

### **Pricing of our products**

Under our business model, we sell our Boree brand products mainly to distributors. We do not have any agreements with our distributors that provide for a minimum purchase price at which the distributors sell our Boree brand products. We do, however, provide suggested retail prices for our Boree brand products which may be adjusted by our distributors according to market conditions. As such, the ex-factory prices we offer to our distributors for our products must match our distributors' expectations of the retail price of Boree brand products to consumers. The brand power of our Boree brand is a significant factor that we take into consideration in determining the suggested retail prices of our Boree brand products. Our ability to continue to price our Boree brand products at current levels is important to our financial performance. We determine the suggested retail prices for our Boree brand products based on various factors such as our internal and subcontracting costs, consumers' purchasing power in the PRC and general economic conditions in the PRC. We market our Boree brand products to the fast-growing, affluent consumer group comprising of women primarily between the ages of 18 and 40 who we believe, are willing to pay a relatively higher price for slippers with fashionable designs. We believe our product positioning enables us to capture a well-defined market with growing demand. Going forward, our ability to continue to design and manufacture products that keeps in pace with the latest fashion trends may have a direct impact on the pricing of our products which we sell to our distributors.

### **Our ability to maintain our key strengths so as to remain competitive**

According to the Frost & Sullivan Report, the PRC slipper market has been growing in recent years. We believe the competition in the slipper market in the PRC will become more intense when more slipper suppliers, including both domestic and international slipper suppliers, enter the market. Our Directors believe that our major competitors will be OEM slipper suppliers and domestic and international branded slipper suppliers who have their own sales networks in the PRC. We may also compete indirectly with other footwear suppliers in the PRC, who may target some common segments of the PRC consumer market.

Our Directors believe that we were able to remain competitive in the PRC slipper industry and retain our leading market position during the Track Record Period through the effective implementation of our key strategies aimed at promoting our branded product business, including brand building and maintaining good relationships with our distributors. However, with increasing competition in the PRC slipper industry expected in the future, our ability to compete on the basis of price, brand recognition, geographical coverage and market penetration is likely to have a positive impact on our financial condition and results of operations.

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## FINANCIAL INFORMATION

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### **Cost of raw materials**

The principal type of raw material used in the production of our slippers is plastic (including plastic-related materials). For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, the cost of our raw materials accounted for approximately 74.4%, 73.2%, 67.3% and 65.0%, respectively, of our cost of sales. It is important for us to obtain sufficient quantities of quality raw materials from our suppliers in a timely manner and at competitive prices for our production of slippers. The cost of some of our key raw materials is affected by global and regional supply and demand conditions as well as the prevailing prices of crude oil. Except when the price of crude oil is volatile such as in 2007 and early 2008, we generally do not procure raw materials and commence production until after receipt of confirmed purchase orders from our customers. Hence, in most circumstances, we are able to pass on the increase in costs of raw materials to our customers. We do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers by increasing the suggested retail prices of our products or increasing the price at which we sell our products to our distributors may materially and adversely affect our cost of sales and our gross profit margins.

### **Seasonality**

The market demand for slippers in the PRC and overseas is subject to seasonality. We typically achieve higher sales from the sale of our spring/summer collections from November to April each year. Seasonal effects in the demand for slippers affects the efficiency level at which we are able to utilise our resources. For example, during off-peak seasons, our production capacity may not be fully utilised whereas during peak seasons, we may be able to benefit from economies of scale and reduce our overhead costs per unit. Further, owing to the effects of seasonality in the demand for slippers, comparisons of our operating results and net income over any interim periods may not be meaningful and that such comparisons may not be an accurate indicator of our future performance. As such, we believe that our results of operations are affected by the effects of seasonality in the demand for slippers.

### **Exchange rate fluctuations**

Our sales are mainly denominated in U.S. dollars and Renminbi. Our cost of sales and operating expenses are mainly denominated in Renminbi. Approximately 35.6%, 41.7%, 25.8% and 16.7% of our revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively, was derived from our export sales which was mainly denominated in U.S. dollars. The Renminbi appreciated 6.9%, 6.9%, 0.1% and 1.9% against the U.S. dollar for the year ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010, respectively. Our profit margins will be adversely affected to the extent that we are unable to increase the U.S. dollar selling prices of the products we sell to our overseas customers to offset any appreciation of the Renminbi against the U.S. dollar.

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### Level of income tax

In 2007, PRC enterprises were subject to the PRC corporate income tax (“CIT”) at a rate of 30% and local CIT at a rate of 3%. As a foreign-invested manufacturing enterprise established in coastal economic open zones, Quanzhou Baofeng was entitled to a preferential national corporate CIT rate of 24% for the year ended 31 December 2007. Further, since Quanzhou Baofeng was an export-oriented foreign-invested enterprise whose sale of export products reached the regulatory required threshold in 2007 and as confirmed by the relevant PRC authority, it was further granted a 50% reduction in respect of the national CIT and exempted from the local CIT.

Pursuant to the PRC Enterprise Income Tax Law which came into effect on 1 January 2008, the PRC CIT rate was unified to 25.0% for all enterprises and the local CIT was abolished. As such, for the years ended 31 December 2008 and 2009 and the nine months ended 30 September 2010, the applicable PRC CIT rate for Quanzhou Baofeng was 25.0%.

Further, our Company was incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiary through a Hong Kong company. Pursuant to the PRC Enterprise Income Tax Law and its implementation rules, which were promulgated on 16 March 2007 and 6 December 2007, respectively, both became effective on 1 January 2008, if our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC or with an office or premises which has no actual relationship with the income of our Company, a withholding tax at the rate of 10% will be applied to any dividend paid to our Company by a PRC resident enterprise, unless our Company is entitled to a reduction or elimination of such tax, including by tax treaties. According to the tax treaties between PRC and Hong Kong, dividends paid by a foreign-invested enterprise in the PRC to its shareholder(s) in Hong Kong will be subject to a withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise and other conditions required by the PRC laws and regulations are satisfied, otherwise, the dividend withholding tax rate is 10%.

In addition, the PRC Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income excluding equity-investment income such as dividends and bonuses between qualified resident enterprises. Substantially all members of our management team are located in the PRC. We cannot rule out the possibility that our Company may also be deemed a PRC tax resident enterprise and therefore subject to an enterprise income tax rate of 25% on our worldwide income, which excludes equity-investment income such as dividends and bonuses between qualified resident enterprises. As a result of the uncertainty as to whether our Company will be deemed as a “non-PRC tax resident enterprise”, our historical operating results may not be indicative of our operating results for future periods and the value of our Shares will be adversely affected. Further, dividends payable to corporate Shareholders outside the PRC may be subject to a withholding tax at the rate of 10%.

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## FINANCIAL INFORMATION

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial information in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by us in the application of IFRS that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in Note 5 to our Group's financial information set out in the Accountants' Report in Appendix I to this prospectus.

The accounting policies set out below are applied consistently to all periods presented in the financial information.

#### Revenue recognition

We recognise revenue when it is probable that the economic benefits will flow to our 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 our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. We generally recognise revenue when a sale is made and the aforementioned condition is met, which generally occurs when the product is sold and delivered;
- (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; and
- (c) rental income, on a time proportion basis over the lease terms.

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## FINANCIAL INFORMATION

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### **Impairment of non-financial assets other than goodwill**

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, 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.

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.

### **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 a 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.

### **Property, Plant and Equipment**

Property, plant and equipment, other than construction in progress, 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.

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In situations where the recognition criteria is 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, our 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 to flow from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction-in-progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction-in-progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Government grants**

Government grants are recognised at 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 an income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

## FINANCIAL INFORMATION

### CONSOLIDATED RESULTS OF OPERATIONS

#### Selected Consolidated Income Statements

The selected consolidated income statements presented for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010 are derived from our consolidated financial information included in the Accountants' Report set out in Appendix I to this prospectus. Our consolidated financial information for the nine months ended 30 September 2009 has not been audited:

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
<b>REVENUE</b>	429,296	499,264	588,552	426,063	634,307
Cost of sales	<u>(324,711)</u>	<u>(368,694)</u>	<u>(423,179)</u>	<u>(313,236)</u>	<u>(419,551)</u>
Gross profit	104,585	130,570	165,373	112,827	214,756
Other income and gains, net	1,954	8,329	3,044	1,707	770
Selling and distribution costs	(11,386)	(14,214)	(26,927)	(21,307)	(48,965)
General and administrative expenses	(12,997)	(17,099)	(22,464)	(17,308)	(20,011)
Other operating expenses	<u>(869)</u>	<u>(2)</u>	<u>(239)</u>	<u>(175)</u>	<u>(8,725)</u>
<b>PROFIT FROM OPERATIONS</b>	81,287	107,584	118,787	75,744	137,825
Finance costs, net	<u>(2,394)</u>	<u>(22,759)</u>	<u>(14,493)</u>	<u>(10,276)</u>	<u>9,742</u>
<b>PROFIT BEFORE TAX</b>	78,893	84,825	104,294	65,468	147,567
Income tax expense	<u>(9,964)</u>	<u>(26,641)</u>	<u>(34,189)</u>	<u>(20,275)</u>	<u>(43,030)</u>
<b>PROFIT FOR THE YEAR/PERIOD</b>	<u>68,929</u>	<u>58,184</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange differences on translation of foreign operations	<u>—</u>	<u>155</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX</b>	<u>—</u>	<u>155</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD</b>	<u>68,929</u>	<u>58,339</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>

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### PRINCIPAL INCOME STATEMENT COMPARISON

#### Revenue

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

#### *Revenue by product segment*

Our primary source of revenue during the Track Record Period was derived from the sale of slippers. Our revenue from slippers represented approximately 96.7%, 96.0%, 95.0% and 97.7% of our total sales for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010. We have, in addition to our slippers, also supplied non-slipper footwear and accessories under our Boree brand to complement our portfolio and increase our revenue-generators. The following table sets out a breakdown of our revenue by product segments for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>FOOTWEAR</b>										
- Slippers	415,021	96.7	479,025	96.0	558,896	95.0	415,365	97.5	619,494	97.7
- Non-slipper footwear	13,767	3.2	18,721	3.7	27,836	4.7	9,559	2.2	14,176	2.2
<b>Sub-total</b>	<u>428,788</u>	<u>99.9</u>	<u>497,746</u>	<u>99.7</u>	<u>586,732</u>	<u>99.7</u>	<u>424,924</u>	<u>99.7</u>	<u>633,670</u>	<u>99.9</u>
<b>ACCESSORIES</b>	508	0.1	1,518	0.3	1,820	0.3	1,139	0.3	637	0.1
<b>TOTAL</b>	<u>429,296</u>	<u>100.0</u>	<u>499,264</u>	<u>100.0</u>	<u>588,552</u>	<u>100.0</u>	<u>426,063</u>	<u>100.0</u>	<u>634,307</u>	<u>100.0</u>

#### Notes:

(1) The breakdown by product segments for each of the three years ended 31 December 2009 and the nine months ended 30 September 2009 and the total revenue for the nine months ended 30 September 2009 are based on the unaudited management records of our Group.

(2) Accessories refer to bags.



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### Revenue by OEM and branded products

The following table sets out the breakdown of our revenue by OEM and branded products for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<i>(Unaudited)</i>										
<b>OEM PRODUCTS</b>										
Export sales	152,838	35.6	208,356	41.7	151,623	25.8	111,879	26.2	105,761	16.7
Domestic sales	256,357	59.7	258,890	51.9	316,285	53.7	221,437	52.0	290,878	45.8
<b>Sub-total</b>	<b>409,195</b>	<b>95.3</b>	<b>467,246</b>	<b>93.6</b>	<b>467,908</b>	<b>79.5</b>	<b>333,316</b>	<b>78.2</b>	<b>396,639</b>	<b>62.5</b>
<b>BRANDED PRODUCTS</b>										
Boree	20,101	4.7	32,018	6.4	85,860	14.6	64,739	15.2	170,049	26.8
Baofeng	—	—	—	—	34,784	5.9	28,008	6.6	67,619	10.7
<b>Sub-total</b>	<b>20,101</b>	<b>4.7</b>	<b>32,018</b>	<b>6.4</b>	<b>120,644</b>	<b>20.5</b>	<b>92,747</b>	<b>21.8</b>	<b>237,668</b>	<b>37.5</b>
<b>TOTAL</b>	<b>429,296</b>	<b>100.0</b>	<b>499,264</b>	<b>100.0</b>	<b>588,552</b>	<b>100.0</b>	<b>426,063</b>	<b>100.0</b>	<b>634,307</b>	<b>100.0</b>

Notes:

- (1) To the best knowledge and information of our Directors, some of our domestic OEM products were ultimately exported.
- (2) Domestic OEM sales for the nine months ended 30 September 2010 include sales of 2010 Shanghai World Expo Products of approximately RMB17.6 million.
- (3) All branded product sales are domestic sales.

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*Number of pairs of footwear / units of accessories sold and the average selling price*

The following table sets out a breakdown of our revenue, the number of pairs of footwear and/or units of accessories sold and the average selling price by OEM products and branded products for the periods indicated:

	For the year ended 31 December									For the nine months ended 30 September					
	2007			2008			2009			2009			2010		
	Revenue	Volume	Average selling price (Note)	Revenue	Volume	Average selling price (Note)	Revenue	Volume	Average selling price (Note)	Revenue	Volume	Average selling price (Note)	Revenue	Volume	Average selling price (Note)
(RMB'000)	('000)	(RMB)	(RMB'000)	('000)	(RMB)	(RMB'000)	('000)	(RMB)	(RMB'000)	('000)	(RMB)	(RMB'000)	('000)	(RMB)	
	<i>(Unaudited)</i>														
<b>OEM PRODUCTS</b>															
- Footwear (Pairs)	409,152	31,797	12.9	467,246	36,831	12.7	467,908	38,296	12.2	333,316	28,129	11.8	396,639	28,006	14.2
- Accessories (Units)	43	1	43.0	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total for OEM Products	409,195			467,246			467,908			333,316			396,639		
<b>BRANDED PRODUCTS</b>															
Boree Footwear (Pairs)	19,636	320	61.4	30,500	343	88.9	84,040	1,577	53.3	63,600	1,196	53.2	169,411	3,589	47.2
Baofeng Footwear (Pairs)	—			—			34,784	2,647	13.1	28,008	2,175	12.9	67,619	5,162	13.1
Sub-total for branded footwear (Pairs)	19,636	320	61.4	30,500	343	88.9	118,824	4,224	28.1	91,608	3,371	27.2	237,030	8,751	27.1
Boree accessories (Units)	464	7	66.3	1,518	20	75.9	1,820	25	72.8	1,139	15	75.9	638	11	58.0
Sub-total for branded products	20,101			32,018			120,644			92,747			237,668		
Total	429,296			499,264			588,552			426,063			634,307		

**Notes:**

(1) *Average selling price refers to the average ex-factory price representing revenue for the items sold divided by the total number of pairs of footwear sold or units of accessories sold (as the case may be) for the year/period.*

(2) *Accessories refer to bags.*

During the Track Record Period, most of our Group's revenue was contributed by OEM sales, which accounted for approximately 95.3%, 93.6%, 79.5% and 62.5%, respectively, of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010. We manufacture footwear on an OEM basis for companies and/or licensees of companies, some of which were on the Fortune Global 500 for the year 2009.

Our Directors believe that the growth potential for branded slippers and other branded footwear products is higher than that for the OEM products. As such, we began to shift our business focus towards developing a branded product business. We first launched our Boree brand in 2007 as a brand for slippers with fashionable designs targeted at the medium-to-high end market. We then launched our Baofeng brand in 2009 as a brand for slippers with

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traditional designs targeted at the budget-to-medium end market. The proportion of our revenue from branded products grew and accounted for approximately 4.7%, 6.4%, 20.5% and 37.5%, respectively, of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010.

To complement our portfolio and increase our revenue-generators, we also supplied a small portion of accessories, such as bags, during the Track Record Period. For our OEM business, we supplied accessories due to specific requests from a domestic OEM customer in 2007. The revenue derived from sales of OEM accessories for the year ended 31 December 2007 was approximately RMB43,000 and there were no sales of OEM accessories for each of the two years ended 31 December 2009 and the nine months ended 30 September 2010. For our branded product business, we also supplied accessories, such as bags, under our Boree brand so as to diversify our branded product portfolio. The sales revenue of our branded accessories was approximately RMB0.5 million, RMB1.5 million, RMB1.8 million and RMB0.6 million for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

Sales volume of our OEM footwear grew steadily from approximately 31.8 million pairs in 2007 to approximately 36.8 million pairs in 2008 to approximately 38.3 million pairs in 2009. Sales volume of our OEM footwear remained stable at approximately 28.1 million pairs for the nine months ended 30 September 2009 and approximately 28.0 million pairs for the nine months ended 30 September 2010, mainly due to the shift in our business focus towards our branded product business. During the nine months ended 30 September 2010, our Directors tended to select some of the more profitable OEM orders for production. Therefore, although the sales volume remained stable over this period, sales revenue generated from our OEM products increased from approximately RMB333.3 million for the nine months ended 30 September 2009 to approximately RMB396.6 million for the nine months ended 30 September 2010.

We experienced a high growth in total sales volume of our branded footwear during the Track Record Period. Total sales volume of our branded footwear grew from approximately 320,000 pairs in 2007 to approximately 343,000 pairs in 2008 to approximately 4.2 million pairs in 2009. We experienced a further increase in total sales volume for the nine months ended 30 September 2010 of approximately 8.8 million pairs, compared to 3.4 million pairs over the same period in 2009. The increase was primarily due to the shift in our business focus towards our branded product business. In this regard, we launched various marketing campaigns to promote our Boree brand, extended the geographical coverage of our distributors and launched our Baofeng Brand in 2009.

In general, the prices of our products are closely correlated with their designs, specifications, popularity as well as the prevailing price of plastic, which constitutes the major portion of our cost of sales, and which is in turn affected by the fluctuations in international crude oil prices.

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Notwithstanding the factors stated above, the average selling price of our OEM footwear remained stable at approximately RMB12.9, RMB12.7, and RMB12.2 per pair, for each of the three years ended 31 December 2009, respectively, and slightly increased to approximately RMB14.2 per pair for the nine months ended 30 September 2010. The primary reason for such increase was because we anticipated that the increase in demand for our branded products would impose a significant burden on our production capacity, we tended to select some of the more profitable OEM orders for production.

For each of the three years ended 31 December 2009 and nine months ended 30 September 2010, our branded footwear had higher average selling prices as well as higher gross profit margins as compared to our OEM footwear. For our OEM footwear, we generally adopted the designs provided by our OEM customers so unlike our branded footwear, we could not charge a premium for our slipper designs. As such, we generally had lower gross profit margins for our OEM footwear as compared to our branded products during the Track Record Period.

The prices of our branded products are also correlated with the type and change in demand of our branded products. In general, our branded products can be categorised into “slippers” and “non-slipper footwear”. During the Track Record Period, our non-slipper footwear generally had higher selling prices than our slippers due to their difference in specifications and product designs. We launched our Boree brand in 2007, which is targeted at the medium-to-high end market. We initially focused on supplying slippers under this brand as slippers had been our principal business focus for years. We started to offer some branded non-slipper footwear and accessories in 2007 to complement our product range.

In view of rapid economic growth in the PRC, our Directors decided to diversify our product mix under our brand names by offering a wider variety of non-slipper footwear, including some winter footwear, to capture the anticipated increase in market demand in 2008. The sales volume of our branded non-slipper footwear increased from approximately 41,000 pairs for the year ended 31 December 2007 to approximately 140,000 pairs for the year ended 31 December 2008. In light of the change in our product mix, the sales volume of our branded non-slipper footwear as a proportion of total branded footwear increased from approximately 12.8% for the year ended 31 December 2007 to approximately 41.0% for the year ended 31 December 2008. Due to the increase in the sales volume of our non-slipper footwear, the average selling price of our branded footwear increased significantly from RMB61.4 per pair for the year ended 31 December 2007 to RMB88.9 per pair for the year ended 31 December 2008.

By leveraging on our strong market position as a leading slipper supplier in the PRC, we decided to further diversify the range of styles of our branded slippers in 2009 in response to an increase in market demand despite the fact that our non-slipper footwear generally had higher selling prices than our slippers. We believe that the success of our Boree brand over this period was attributable to the successful promotion of our Boree brand and an extension

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in the geographical coverage of our distributors from ten provinces, autonomous regions and municipalities as at 31 December 2008 to 23 provinces, autonomous regions and municipalities as at 31 December 2009. The sales volume of our Boree brand slippers increased significantly from approximately 0.2 million pairs for the year ended 31 December 2008 to approximately 1.4 million pairs for the year ended 31 December 2009. At the same time, sales volume of our Boree brand slippers as a proportion of total Boree brand footwear increased from approximately 59.0% for the year ended 31 December 2008 to approximately 89.2% for the year ended 31 December 2009. As a result, the average selling price of our Boree brand footwear decreased from approximately RMB88.9 per pair for the year ended 31 December 2008 to approximately RMB53.3 per pair for the year ended 31 December 2009.

With a view to further expanding our market share and diversifying our branded products to capture different market segments, we launched our Baofeng brand in 2009, which is targeted at the budget-to-medium end market. During the Track Record Period, our Baofeng brand footwear generally had lower selling prices than our Boree brand footwear. For the year ended 31 December 2009, the average selling price of our Baofeng brand footwear was approximately RMB13.1 per pair which was significantly lower than that of our Boree brand footwear of approximately RMB53.3 per pair for the same period. In addition, the sales volume of our Baofeng brand footwear for the year ended 31 December 2009 was approximately 2.6 million pairs, which accounted for approximately 62.7% of the total sales volume of our branded footwear for the year ended 31 December 2009.

Therefore, the change in the product mix of our Boree brand slippers and non-slipper footwear and the launch of our Baofeng brand resulted in a significant decrease in the overall average selling price of our branded footwear from approximately RMB88.9 per pair for the year ended 31 December 2008 to approximately RMB28.1 per pair for the year ended 31 December 2009.

We continued to benefit from the successful promotion of our Boree brand and the extension in the geographical coverage of our distributors for the nine months ended 30 September 2010 as we continued to experience an increase in the sales of our Boree brand slippers. The sales volume of our Boree brand slippers accounted for approximately 95.6% of the total Boree brand footwear sales volume for the nine months ended 30 September 2010 compared to approximately 89.2% for the year ended 31 December 2009. For the same reasons, we also experienced a decrease in the average selling price of Boree brand footwear and branded footwear from approximately RMB53.3 and RMB28.1 per pair, respectively, for the year ended 31 December 2009 to approximately RMB47.2 and RMB27.1 per pair, respectively, for the nine months ended 30 September 2010.

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To the best knowledge of our Directors, for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our Boree branded footwear belonged to the top-tier of slippers in terms of ex-factory average selling price range. According to the Frost & Sullivan Report, the major slipper brands in the PRC can be divided into three tiers in terms of average selling price range. The top tier is RMB20 (inclusive) to RMB100 per pair, while tier two ranges from RMB10 (inclusive) to RMB20 per pair, and tier three is below RMB10 per pair.

### Cost of sales

Our Group's cost of sales consists of raw materials costs, labour costs, subcontracting costs and other overheads. Labour costs consist of salaries and other compensation expenses. Subcontracting costs refer to the costs of finished goods purchased from our sub-contractors. Other overheads include mainly depreciation of production facilities, operating lease expenses, costs associated with running our facilities, such as electricity, water and maintenance costs, and other miscellaneous costs.

The following table sets out a breakdown of the principal components of our Group's cost of sales for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Raw materials	241,650	74.4	269,945	73.2	284,746	67.3	222,143	70.9	272,715	65.0
Labour	48,537	15.0	55,112	15.0	56,553	13.4	41,011	13.1	47,150	11.2
Subcontracting	16,452	5.1	16,947	4.6	60,355	14.2	33,853	10.8	82,733	19.7
Other overheads	18,072	5.5	26,690	7.2	21,525	5.1	16,229	5.2	16,953	4.1
<b>TOTAL</b>	<u>324,711</u>	<u>100.0</u>	<u>368,694</u>	<u>100.0</u>	<u>423,179</u>	<u>100.0</u>	<u>313,236</u>	<u>100.0</u>	<u>419,551</u>	<u>100.0</u>

During the Track Record Period, the increase in cost of sales was in line with our increase in sales.

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### Gross profit and gross profit margin

The following table sets out a breakdown of our Group's gross profit and gross profit margin for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>OEM PRODUCTS</b>	97,929	23.9	119,119	25.5	118,598	25.3	76,998	23.1	117,211	29.6
<b>BRANDED PRODUCTS</b>										
Boree	6,656	33.1	11,451	35.8	35,653	41.5	27,088	41.8	71,785	42.2
Baofeng	—	—	—	—	11,122	32.0	8,741	31.2	25,760	38.1
Sub-total	6,656	33.1	11,451	35.8	46,775	38.8	35,829	38.6	97,545	41.0
<b>TOTAL</b>	<u>104,585</u>	24.4	<u>130,570</u>	26.2	<u>165,373</u>	28.1	<u>112,827</u>	26.5	<u>214,756</u>	33.9

We began our business as an OEM enterprise in 2001 and over the years, our OEM business has prospered. We have also developed a solid and broad customer base over the years. Since 2004, we have been obtaining orders for a chain store giant. Since 2009, we have been obtaining orders from a licensed distributor of a leading diversified international family entertainment and media enterprise.

During the Track Record Period, the gross profit margin for our OEM products was on an increasing trend, from approximately 23.9% for the year ended 31 December 2007 to 25.5% for the year ended 31 December 2008 to 25.3% for the year ended 31 December 2009 to approximately 29.6% for the nine months ended 30 September 2010. The increase in gross profit margin from 2007 to 2008 was mainly attributable to a decrease in average unit cost of goods sold as a result of purchasing raw materials in bulk and better utilisation of machinery and labour resources in 2008. Our gross profit margin remained stable from 2008 to 2009. Our gross profit margin increased to approximately 29.6% for the nine months ended 30 September 2010, which was mainly attributable to (i) the shift in our business focus towards our branded product business as a result of which our Directors tended to select some of the more profitable OEM orders for production; and (ii) our ability to enjoy from economies of scale as a result of an increase in sales of both of our OEM and branded products.

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For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, our branded products had a higher average selling price as well as a higher gross profit margin as compared to our OEM products. For our OEM products, we generally adopted the designs provided by our OEM customers so unlike our branded products, we could not charge a premium for our slipper designs. As such, we generally had lower gross profit margins for our OEM products as compared to our branded products during the Track Record Period.

Our Boree brand products were introduced in 2007. The increase in gross profit margin from 2007 to 2008 was mainly attributable to a better recognition of our Boree brand products and an increase in the range of our Boree Brand products, some of which had higher profit margins. The gross profit margin for our branded products increased from approximately 33.1% in 2007 to approximately 35.8% in 2008 due to a decrease in our cost of sales and a simultaneous increase in the selling prices of our Boree brand products. The gross profit margin for our branded products remained stable at approximately 38.8% for the year ended 31 December 2009 and increased slightly to approximately 41.0% for the nine months ended 30 September 2010. Such increase in gross profit margin was mainly attributed to, among others, (i) our ability to charge higher ex-factory average selling prices as we were able to charge a premium for our slipper designs and as the recognition of our Boree brand has been strengthened following the successful promotion of our Boree brand; and (ii) our ability to enjoy from economies of scale as a result of the increase in sales.

### **Other income and gains**

Other income and gains consist primarily of interest income, rental income received for leases of real property, subsidy income from the PRC Government and exchange gains/losses. Interest income is derived from interest received from bank deposits. Subsidy income from the PRC Government refers to non-recurring government grants received from the relevant PRC authorities, such as 福建省財政廳 (Department of Finance of Fujian Province\*), as recognition for our contribution to the local economy through the development of our own brands. The amount of government grants received by us was subject to the discretion exercised by the relevant PRC authorities. The exchange gains/losses were derived from certain forward currency contracts entered into by us in 2007 and 2008. For each of the three years ended 31 December 2009, other income and gains were approximately RMB2.0 million, RMB8.3 million and RMB3.0 million, respectively, representing approximately 0.5%, 1.7% and 0.5% of our total revenue, respectively. For each of the nine months ended 30 September 2009 and 2010, other income and gains were approximately RMB1.7 million and RMB0.8 million, respectively, representing approximately 0.4% and 0.1% of our total revenue, respectively.



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### **Selling and distribution costs**

Selling and distribution costs consist primarily of costs and expenses incurred in connection with advertising and marketing expenses and transportation, declaration and inspection expenses. For each of the three years ended 31 December 2009, selling and distribution costs were approximately RMB11.4 million, RMB14.2 million and RMB26.9 million, respectively, representing approximately 2.7%, 2.8% and 4.6% of our total revenue, respectively. For each of the nine months ended 30 September 2009 and 2010, selling and distribution costs were approximately RMB21.3 million and RMB49.0 million, respectively, representing approximately 5.0% and 7.7% of our total revenue, respectively. For each of the three years ended 31 December 2009, advertising and marketing expenses were approximately RMB2.6 million, RMB3.6 million and RMB12.1 million, respectively. For each of the nine months ended 30 September 2009 and 2010, advertising and marketing expenses were approximately RMB10.1 million and RMB27.3 million, respectively. For each of the three years ended 31 December 2009, transportation, declaration and inspection expenses were approximately RMB5.8 million, RMB7.2 million and RMB7.3 million, respectively. For each of the nine months ended 30 September 2009 and 2010, transportation, declaration and inspection expenses were approximately RMB5.9 million and RMB8.0 million, respectively.

### **General and administrative expenses**

Administrative expenses consist primarily of salary for administrative staff, welfare and other benefits for all employees, legal and professional fees, entertainment expenses, travelling expenses and depreciation expenses for our property, plant and equipment. Salary for administrative staff includes wages and bonuses. Welfare and other benefits expenses include dormitory costs, training costs and the cost of other benefits for our employees.

For each of the three years ended 31 December 2009, general and administrative expenses were approximately RMB13.0 million, RMB17.1 million and RMB22.5 million, respectively, representing approximately 3.0%, 3.4% and 3.8% of our total revenue, respectively. For each of the nine months ended 30 September 2009 and 2010, general and administrative expenses were approximately RMB17.3 million and RMB20.0 million, respectively, representing approximately 4.1% and 3.2% of our total revenue, respectively.

### **Other operating expenses**

Other operating expenses consist primarily of donations and other expenses. For each of the three years ended 31 December 2009, other operating expenses were approximately RMB869,000, RMB2,000 and RMB239,000, respectively, representing approximately 0.2%, 0% and 0.04% of our total revenues, respectively. For each of the nine months ended 30 September 2009 and 2010, other operating expenses were approximately RMB0.18 million and RMB8.7 million, respectively, representing approximately 0.04% and 1.38% of our total revenue, respectively.

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### Finance costs, net

The following table sets out the finance cost, net, for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Interest on bank loans repayable within five years	(2,394)	(3,056)	(1,913)	(1,171)	(2,494)
Interest expenses on exchangeable note	—	(3,415)	(12,580)	(9,105)	(8,106)
Interest on exchangeable note accelerated upon default	—	(16,288)	—	—	—
Waiver of maturity yield payment of exchangeable note	—	—	—	—	20,342
	<u>(2,394)</u>	<u>(22,759)</u>	<u>(14,493)</u>	<u>(10,276)</u>	<u>9,742</u>

For each of the three years ended 31 December 2009, finance costs were approximately RMB2.4 million, RMB22.8 million and RMB14.5 million, respectively, representing approximately 0.6%, 4.6% and 2.5% of our total revenue, respectively. For the nine months ended 30 September 2009 finance costs were approximately RMB10.3 million and for the nine months ended 30 September 2010, finance income was approximately RMB9.7 million, primarily due to the fact that there was a waiver of maturity yield payment of the 2008 Exchangeable Note arising from the restructuring of the terms thereof of approximately RMB20.3 million in 2010.

For further details, please see Note 28 to the financial information in the Accountants' Report set out in Appendix I to this prospectus and the sub-section headed "History, Reorganisation and Group Structure — Pre-IPO Investment by CITIC Capital" in this prospectus. The finance cost for the nine months ended 30 September 2009 and the net finance income for the nine months ended 30 September 2010 represents approximately 2.4% and 1.5% of our total revenue, respectively.

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### Income tax

Income tax represents the amount of CIT paid by us and deferred tax provision in respect of withholding tax levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC. No provision for Hong Kong profits tax was made as we did not generate any assessable profit arising in Hong Kong during the Track Record Period. We were not subject to any tax in the Cayman Islands during the Track Record Period. However, our PRC subsidiary was subject to PRC corporate income tax. The following table sets out the applicable PRC CIT rates during the Track Record Period for our PRC subsidiary:

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Quanzhou Baofeng	12 <sup>(1)</sup>	25 <sup>(2)</sup>	25 <sup>(2)</sup>	25 <sup>(2)</sup>	25 <sup>(2)</sup>

Notes:

- (1) For the year ended 31 December 2007, PRC enterprises were subject to the PRC national CIT at a rate of 30.0% and local CIT at a rate of 3.0%. As a foreign-invested manufacturing enterprise established in coastal economic open zones, Quanzhou Baofeng was entitled to a preferential national CIT rate of 24% for that year. Furthermore, since Quanzhou Baofeng was an export-oriented foreign-invested enterprise whose sale of export products reached the regulatory required threshold in 2007 and as confirmed by the relevant PRC regulatory authority, it was further granted a 50.0% reduction in respect of the national CIT and exempted from the local CIT.
- (2) Pursuant to the PRC Enterprise Income Tax Law which came into effect on 1 January 2008, the PRC CIT rate is set at 25.0% for all enterprises and the local CIT was abolished. As such, for the years ended 31 December 2008 and 2009 and for the nine months ended 30 September 2010, the applicable PRC CIT rate for Quanzhou Baofeng was 25.0%.

Please see the sub-section headed “Factors affecting our financial condition and results of operations — Level of income tax” in this section of the prospectus for further details regarding taxation applicable to us.

For each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, the effective tax rate for our PRC subsidiary was approximately 12.6%, 31.4%, 32.8% and, 29.2%, respectively. The overall effective tax rates for the above periods were close to approximately 30%, except for the year ended 31 December 2007, which had a relatively lower effective tax rate of approximately 12.6%. The main reason for the exception was because a 50% exemption was granted to Quanzhou Baofeng on the basis that it was an enterprise involved in export sales. The exemption was applied on the initial CIT rate of 24% which was applicable to enterprises located in Quanzhou - an area that is categorised as a coastal economic open zone in the PRC. For the periods thereafter, our PRC subsidiary maintained a stable effective tax rate of close to 30%, which was mainly a result of 1) the new unified CIT rate of 25% which took effect on 1 January 2008; 2) the availability of the non-deductible expenses from 2008 to 2010 in relation to the finance costs arising from the

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2008 Exchangeable Note among the Hong Kong and Cayman entities whereas such expenses were absent in the year ended 31 December 2007; and 3) the accrual of the 10% withholding tax on the distributable profits of our PRC subsidiary for the year ended 31 December 2009 and the nine months ended 30 September 2010.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### **Nine months ended 30 September 2009 (unaudited) compared to nine months ended 30 September 2010**

##### **Revenue**

Revenue increased by approximately 48.9% from approximately RMB426.1 million for the nine months ended 30 September 2009 to approximately RMB634.3 million for the same period in 2010, primarily as a result of the following:

##### *OEM products*

Revenue from sales of our OEM products increased by approximately 19.0% from approximately RMB333.3 million for the nine months ended 30 September 2009 to approximately RMB396.6 million for the same period in 2010, primarily due to an increase in the average selling price of our OEM products and the introduction of 2010 Shanghai World Expo Products.

As we anticipated that the increase in demand for our branded products would impose a considerable burden on our production capacity, we decided to be more selective in the OEM orders that we would accept and tended to select some of the more profitable OEM orders for production. Although the sales volume of our OEM products remained stable from approximately 28.1 million pairs for the nine months ended 30 September 2009 to approximately 28.0 million pairs for the nine months ended 30 September 2010, as the average selling price of our OEM products increased from approximately RMB11.8 for the nine months ended 30 September 2009 to approximately RMB14.2 for the nine months ended 30 September 2010, the revenue from our OEM products increased over this period. Such increase was also due to the fact that we were able to charge relatively higher selling prices for certain orders from some of our domestic OEM customers.

In addition, as a licensed manufacturer of slippers and a retailer of footwear products for the 2010 Shanghai World Expo, we sold 2010 Shanghai World Expo Products in 2010. This has also contributed to an increase in the average selling price of as well as the total revenue derived from our OEM products for the nine months ended 30 September 2010 when compared with the same period in 2009. Revenue derived from the 2010 Shanghai World Expo Products was approximately RMB17.6 million with an average selling price of approximately RMB38.0 for the nine months ended 30 September 2010.

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### *Branded products*

Revenue from sales of our branded products increased by approximately 156.4% from approximately RMB92.7 million for the nine months ended 30 September 2009 to approximately RMB237.7 million for the nine months ended 30 September 2010 and the sales volume of our branded products increased by approximately 158.8% from approximately 3.4 million pairs of footwear for the nine months ended 30 September 2009 to approximately 8.8 million pairs of footwear for the nine months ended 30 September 2010. Such increases were primarily due to successful brand promotion of our Boree brand.

### **Cost of sales**

Cost of sales for our products increased by approximately 34.0% from approximately RMB313.2 million for the nine months ended 30 September 2009 to approximately RMB419.6 million for the same period in 2010 primarily due to an increase in raw materials costs and subcontracting costs as a result of an increase in our sales. Our subcontracting costs increased by approximately 144.0% from approximately RMB34.0 million for the nine months ended 30 September 2009 to approximately RMB82.7 million for the same period in 2010, primarily due to an increase in our branded product sales. We decided to subcontract a portion of our branded products to third-party sub-contractors for production. While our total cost of sales increased following an increase in sales volume, we experienced a decrease in the average unit costs of sales of our branded products due to an increase in bulk purchases from our suppliers. As a result, the increase in cost of sales during the nine months ended 30 September 2010 was proportionally less than the increase in revenue over the same period.

### **Gross profit and gross profit margin**

Our gross profit increased by approximately 90.4% from approximately RMB112.8 million for the nine months ended 30 September 2009 to approximately RMB214.8 million for the same period in 2010. Our gross profit margin increased from approximately 26.5% for the nine months period ended 30 September 2009 to approximately 33.9% for the same period in 2010. Such increases were primarily as a result of the following:

### *OEM products*

Gross profit from our OEM products increased by approximately 52.2% from approximately RMB77.0 million for the nine months ended 30 September 2009 to approximately RMB117.2 million for the same period in 2010. Gross profit margin of our OEM products increased from approximately 23.1% to 29.6%. Such increase was primarily due to the fact that we decided to be more selective in the OEM orders that we would accept and tended to select the more profitable OEM orders for our production. As we anticipated that the increase in demand for our branded products would impose a significant burden on our production capacity, we decided to deploy more of our internal resources for the production of our branded products. We were also able to charge a relatively higher selling prices for certain orders from our domestic OEM customers.

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### *Branded products*

Gross profit from our Boree brand products increased by approximately 164.9% from approximately RMB27.1 million for the nine months ended 30 September 2009 to approximately RMB71.8 million for the same period in 2010. Gross profit from our Baofeng brand products increased by approximately 196.6% from approximately RMB8.7 million for the nine months ended 30 September 2009 to approximately RMB25.8 million for the same period in 2010. Such increases were in line with the increase in sales of our branded products.

Gross profit margin of our Boree brand products remained at a similar level. Gross profit margin of our Baofeng brand products increased from approximately 31.2% to approximately 38.1% as we have been able to generally charge higher selling prices for Baofeng brand products as a result of the strengthened recognition of our Baofeng brand name in the PRC slipper market.

### **Other income and gains, net**

Other income and gains decreased by approximately 52.9% from approximately RMB1.7 million for the nine months ended 30 September 2009 to approximately RMB0.8 million for the same period in 2010 primarily due to a decrease in subsidies from approximately RMB1.8 million for the nine months ended 30 September 2009 to approximately RMB0.4 million for the same period in 2010.

### **Selling and distribution costs**

Selling and distribution costs increased by approximately 130.0% from approximately RMB21.3 million for the nine months ended 30 September 2009 to approximately RMB49.0 million for the same period in 2010, primarily due to a significant increase in our advertising and marketing expenses for the purpose of promoting our overall image of Quanzhou Baofeng from approximately RMB10.1 million for the nine months ended 30 September 2009 to approximately RMB27.3 million for the same period in 2010 and an increase in salaries and wages for sales staff from RMB2.5 million for the nine months ended 30 September 2009 to approximately RMB4.7 million for the same period in 2010. Further, the increase in selling and distribution costs was also due to expenses of approximately RMB5.0 million incurred as a result of the 2010 Shanghai World Expo including the licence fee and rental expenses of our World Expo Booth for the nine months ended 30 September 2010 whereas there was no such expenses for the same period in 2009.

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### General and administrative expenses

General and administrative expenses increased from approximately RMB17.3 million for the nine months ended 30 September 2009 to approximately RMB20.0 million for the same period in 2010. There was a one-off subsidy of US\$0.3 million (equivalent to approximately RMB2.0 million) charged by CITIC Capital as compensation for giving up any potential increase in the exchange ratio in respect of the exchange right (i.e. exchange into Shares held by the existing Shareholders) under the 2008 Exchangeable Note as a result of an unforeseeable depreciation of RMB against US\$. Excluding this one-off subsidy, the general and administrative expenses increased from approximately RMB15.3 million for the nine months ended 30 September 2009 to approximately RMB20.0 million for the same period in 2010, primarily due to an increase in the administrative and other staff costs and benefit in kind from RMB7.6 million for the nine months ended 30 September 2009 to approximately RMB9.9 million for the same period in 2010.

### Other operating expenses

Other operating expenses increased by approximately 4,733.3% from approximately RMB0.18 million for the nine months ended 30 September 2009 to approximately RMB8.7 million for the same period in 2010, primarily due to the IPO-related expenses of approximately RMB8.6 million incurred for the nine months ended 30 September 2010.

### Profit from operations

Profit from operations increased by approximately 82.0% from approximately RMB75.7 million for the nine months ended 30 September 2009 to approximately RMB137.8 million for the same period in 2010 primarily due to the factors described above.

### Finance costs, net

There was a net finance cost of approximately RMB10.3 million for the nine months ended 30 September 2009 as compared to a net finance income of approximately RMB9.7 million for the same period in 2010, primarily due to the fact that there was a waiver of “maturity yield payment” of the 2008 Exchangeable Note arising from the restructuring of the terms thereof of RMB20.3 million recognised during the nine months ended 30 September 2010.

Under the original terms of the 2008 Exchangeable Note, we were obliged to pay, on the maturity date of 22 September 2011, to CITIC Capital, interest on the outstanding principal amount, being at the rate of 18% deferred and compounded on an annual basis from the date of issuance of the 2008 Exchangeable Note to the maturity date, less the aggregate amount of interest that has been actually paid to CITIC Capital by our Company as at the maturity date (the “**Maturity Yield Payment**”). The obligation to pay Maturity Yield Payment on maturity date was accrued in our financial information from the date of issuance of the 2008 Exchangeable Note and resulted in an interest expense in the income statement. In addition, we breached the original terms of certain financial covenants of the 2008 Exchangeable Note during the year ended 31 December 2008, the 2008 Exchangeable Note, according to its original terms, would

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entitle CITIC Capital to elect to require us to redeem the 2008 Exchangeable Note albeit before the maturity date. The difference between the nominal value of the 2008 Exchangeable Note of US\$10 million and the carrying amount of the liability component of 2008 Exchangeable Note at the date of breach of financial covenants was recorded as an expense in our income statement. Along the way, the 2008 Exchangeable Note had been reflected in the statement of financial position at the carrying amount of US\$10 million plus the Maturity Yield Payment accrued.

As a result of the restructuring of the terms of the 2008 Exchangeable Note pursuant to the Restructuring Deed, we will no longer be required to pay the Maturity Yield Payment and, the Shareholders have assumed the obligation to pay the Maturity Yield Payment if (i) a Qualified IPO has not been completed on or before the maturity date; or (ii) CITIC Capital elects to require us to redeem all the outstanding amount of the 2008 Exchangeable Note upon any event of default. The 2008 Exchangeable Note will become redeemable on the maturity date of 22 September 2011 at US\$10 million plus interest accrued but unpaid, if any, instead of at US\$10 million plus interest calculated at 18% unless CITIC Capital elects to require us to redeem the 2008 Exchangeable Note upon any event of default prior to the maturity date. Therefore, the carrying amount of the liability component of the 2008 Exchangeable Note decreased and resulted in a credit to our Company's income statement.

### **Profit before tax**

Profit before tax increased by approximately 125.3% from approximately RMB65.5 million for the nine months ended 30 September 2009 to approximately RMB147.6 million for the same period in 2010, primarily due to the factors described above.

### **Income tax expense**

Income tax expense increased by approximately 111.8% from approximately RMB20.3 million for the nine months ended 30 September 2009 to approximately RMB43.0 million for the same period in 2010 primarily due to an increase in CIT paid and/or payable as a result of an increase in profit before tax and the recognition of withholding taxes of approximately RMB5.5 million chargeable on dividends declared by Quanzhou Baofeng in respect of earnings generated since 1 January 2008.

The effective tax rate for the nine months ended 30 September 2010 was approximately 29.2%, which was lower than the effective tax rate of approximately 31.0% for the nine months ended 30 September 2009. Given our Group was subject to the same CIT rate of 25% and 10% withholding tax on its distributable profits of our PRC subsidiary for both of the two periods, our Group had a non-taxable income of approximately RMB20.3 million of finance income arising from the waiver of the Maturity Yield Payment for the nine months ended 30 September 2010, which caused a net effect of a lower effective tax rate for the period.



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### Profit for the period

Net profit increased by approximately 131.2% from approximately RMB45.2 million for the nine months ended 30 September 2009 to approximately RMB104.5 million for the same period in 2010, and our net profit margin increased from approximately 10.6% for the nine months ended 30 September 2009 to approximately 16.5% for the same period in 2010 primarily due to the factors described above.

### Year Ended 31 December 2008 Compared to Year Ended 31 December 2009

#### Revenue

Revenue increased by approximately 17.9% from approximately RMB499.3 million for the year ended 31 December 2008 to approximately RMB588.6 million for the year ended 31 December 2009, primarily as a result of the following:

#### *OEM products*

Our revenue from OEM products only grew slightly as we began to shift our business focus towards our branded product business. Revenue from our OEM products increased by approximately 0.1% from approximately RMB467.2 million for the year ended 31 December 2008 to approximately RMB467.9 million for the year ended 31 December 2009. Such slight increase was mainly due to the combined effect of a decrease in our export sales of OEM products and an increase in our domestic sales of OEM products.

Our export sales of OEM products decreased by approximately 27.3% from approximately RMB208.4 million for the year ended 31 December 2008 to approximately RMB151.6 million for the year ended 31 December 2009. Such decrease was primarily due to a decrease in our export sales to the United States following the economic downturn in United States in the last quarter of 2008.

In response to the economic downturn in the United States market in 2009, we diverted our attention towards exploiting opportunities in the domestic OEM market instead. To the best information and knowledge of our Directors, our OEM customers in the PRC include companies who sell their products domestically as well as companies that are also engaged in export sales to certain regions abroad including Europe and Japan. As a result, we experienced an overall net increase in domestic sales revenue of our OEM products of approximately 22.2% from approximately RMB258.9 million for the year ended 31 December 2008 to approximately RMB316.3 million for the year ended 31 December 2009 and an increase in total sales volume of our OEM footwear from approximately 36.8 million pairs for the year ended 31 December 2008 to approximately 38.3 million pairs for the year ended 31 December 2009.

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### *Branded products*

Our revenue from sales of our branded products increased by approximately 276.9% from approximately RMB32.0 million for the year ended 31 December 2008 to approximately RMB120.6 million for the year ended 31 December 2009. Such increase was primarily due to (i) the launch of our Baofeng brand in 2009 and (ii) successful marketing strategies for our brands and (iii) an extension in the geographical coverage of our distributors in 2009.

In order to diversify and establish a broad market coverage of our branded products in the PRC, we launched the Baofeng brand in 2009 as a brand for traditional slippers, targeted at budget-to-medium end market. Our revenue from the sales of our Baofeng brand products was approximately RMB34.8 million for the year ended 31 December 2009 which accounted for approximately 5.9% of the total revenue of our Group for the year ended 31 December 2009.

In order to increase the recognition of our Boree brand, we also diverted more of our resources to the marketing front in 2009, such as through television advertising.

In addition, we also attempted to increase our geographical coverage by engaging more distributors from other districts in the PRC. The total number of distributors increased from 11 as at the 31 December 2008 to 31 as at 31 December 2009 and the coverage of distributors increased from 10 provinces, autonomous regions and municipalities as at 31 December 2008 to 23 provinces, autonomous regions and municipalities as at 31 December 2009.

### **Cost of sales**

Cost of sales for our products increased by approximately 14.8% from approximately RMB368.7 million for the year ended 31 December 2008 to approximately RMB423.2 million for the year ended 31 December 2009 primarily due to an increase in the orders of our branded products. Cost of sales of our branded products increased by approximately 258.7% from approximately RMB20.6 million for the year ended 31 December 2008 to approximately RMB73.9 million for the year ended 31 December 2009. Such increase was in line with the increase in sales of our branded products.

### **Gross profit and gross profit margin**

Gross profit increased by approximately 26.6% from approximately RMB130.6 million for the year ended 31 December 2008 to approximately RMB165.4 million for the year ended 31 December 2009. Gross profit margin increased from approximately 26.2% for the year ended 31 December 2008 to approximately 28.1% for the year ended 31 December 2009. Such increases were primarily as a result of the following:

### *OEM products*

Both the gross profit from and gross profit margin of our OEM products for the year ended 31 December 2008 and the year ended 31 December 2009 remained stable.

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### *Branded products*

Gross profit from our Boree brand products increased by approximately 210.4% from approximately RMB11.5 million for the year ended 31 December 2008 to approximately RMB35.7 million for the year ended 31 December 2009. Gross profit margin for our Boree brand products increased from approximately 35.8% for the year ended 31 December 2008 to approximately 41.5% for the year 31 December 2009. This was primarily due to an increase in sales of our branded products which enabled us to benefit from economies of scale.

### **Other income and gains**

Other income and gains decreased by approximately 63.9% from approximately RMB8.3 million for the year ended 31 December 2008 to approximately RMB3.0 million for the year ended 31 December 2009, primarily due to exchange losses of approximately RMB28,000 for the year ended 31 December 2009 as compared to exchange gains of approximately RMB6.6 million for the year ended 31 December 2008.

The net exchange gain in 2008 mainly consisted of the realisation of profit from our derivative transactions relating to the forward currency contracts that we entered into in 2008.

The net exchange loss of RMB0.03 million for the year ended 31 December 2009 was primarily due to a foreign currency loss of RMB0.17 million and realisation of profit from our derivative transactions relating to the forward currency contracts.

It is our current policy not to enter into any further forward currency contracts. All forward currency contracts have matured and there was no outstanding position as at 31 December 2009 and 30 September 2010. For details, please see the sub-section headed “Derivatives” in this section of the prospectus.

### **Selling and distribution costs**

Selling and distribution costs increased by approximately 89.4% from approximately RMB14.2 million for the year ended 31 December 2008 to approximately RMB26.9 million for the year ended 31 December 2009. Such increase was primarily due to a significant increase in our advertising and marketing expenses from approximately RMB3.6 million for the year ended 31 December 2008 to approximately RMB12.1 million for the year ended 31 December 2009 mainly as a result of expenses incurred for advertising on television and in magazines for the purpose of promoting our brands.

### **General and administrative expenses**

General and administrative expenses increased by approximately 31.6% from approximately RMB17.1 million for the year ended 31 December 2008 to approximately RMB22.5 million for the year ended 31 December 2009. Such increase was primarily due to an exchange rate subsidy relating to the 2008 Exchangeable Note of US\$0.3 million (equivalent

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to approximately RMB2.0 million) payable to CITIC Capital in 2009 under the Note Agreement. The difference in the general and administrative expenses between these two years further exaggerated due to a reversal of provision for impairment of trade receivables of RMB3.8 million made in prior years following a receipt of settlement in 2008.

### **Other operating expenses**

Other operating expenses increased by approximately 11,850% from approximately RMB2,000 for the year ended 31 December 2008 to approximately RMB239,000 for the year ended 31 December 2009, primarily due to our donation of RMB228,000 to 泉州慈善總會 (Quan Zhou Ci Shan charity\*) for the year ended 31 December 2009.

### **Profit from operations**

Profit from operations increased by approximately 10.4% from approximately RMB107.6 million for the year ended 31 December 2008 to approximately RMB118.8 million for the year ended 31 December 2009 primarily due to the factors described above.

### **Finance costs, net**

Finance costs decreased by approximately 36.4% from approximately RMB22.8 million for the year ended 31 December 2008 to approximately RMB14.5 million for the year ended 31 December 2009, primarily due to a net effect of the incurrence of finance costs in 2008 which included the interest on the 2008 Exchangeable Note accelerated upon default of approximately RMB16.3 million which is partially off-set by an increase in interest on the 2008 Exchangeable Note from approximately RMB3.4 million for the year ended 31 December 2008 to RMB12.6 million for the year ended 31 December 2009.

### **Profit before tax**

Profit before tax increased by approximately 23.0% from approximately RMB84.8 million for the year ended 31 December 2008 to approximately RMB104.3 million for the year ended 31 December 2009, primarily due to the factors described above.

### **Income tax expense**

Income tax expense increased by approximately 28.6% from approximately RMB26.6 million for the year ended 31 December 2008 to approximately RMB34.2 million for the year ended 31 December 2009 primarily due to an increase in corporate income tax paid and/or payable as a result of an increase in profit before tax as well as the recognition of deferred tax liability in respect of withholding taxes of approximately RMB3.5 million chargeable on dividends expected to be distributed by Quanzhou Baofeng in respect of earnings generated since 1 January 2008.

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The effective tax rate for the year ended 31 December 2009 was approximately 32.8%, which was higher than the effective tax rate of approximately 31.4% for the year ended 31 December 2008. The increase in effective tax rate was mainly due to the accrual of 10% withholding tax on the distributable profits of Quanzhou Baofeng in the amount of approximately RMB3.5 million for the year ended 31 December 2009.

### **Profit for the year**

Net profit increased by approximately 20.4% from approximately RMB58.2 million for the year ended 31 December 2008 to approximately RMB70.1 million for the year ended 31 December 2009, and our net profit margin increased from approximately 11.7% for the year ended 31 December 2008 to approximately 11.9% for the year ended 31 December 2009 primarily due to the factors described above.

### **Year Ended 31 December 2007 Compared to Year Ended 31 December 2008**

#### **Revenue**

Revenue increased by approximately 16.3% from approximately RMB429.3 million for the year ended 31 December 2007 to RMB499.3 million for the year ended 31 December 2008, primarily as a result of the following:

#### *OEM products*

Revenue from sales of our OEM products increased by approximately 14.2% from approximately RMB409.2 million for the year ended 31 December 2007 to RMB467.2 million for the year ended 31 December 2008 and the sales volume of our OEM footwear increased from approximately 31.8 million pairs for the year ended 31 December 2007 to approximately 36.8 million pairs for the year ended 31 December 2008. Such increase was mainly due to an increase in market demand in the United States which led to an increase in our export sales to the United States from approximately RMB125.6 million for the year ended 31 December 2007 to approximately RMB185.3 million for the year ended 31 December 2008.

#### *Branded products*

Revenue from sales of our branded products increased by approximately 59.2% from approximately RMB20.1 million for the year ended 31 December 2007 to approximately RMB32.0 million for the year ended 31 December 2008. Such increase is primarily due to an expansion of the distribution network across various provinces, autonomous regions and municipalities. In 2007, our distributors were mainly concentrated in the retail market of Fujian Province. In 2008, we engaged new distributors in other non-Fujian provinces, autonomous regions and municipalities, such as Shanghai, Beijing, Shandong, Anhui and Hubei. Such extension in the geographical coverage of our distributors enabled our branded products to be distributed to a greater number of provinces, autonomous regions and municipalities in the PRC which resulted in an increase in the sales volume of our branded products. The sales volume of our branded footwear increased from approximately 320,000 pairs for the year

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ended 31 December 2007 to approximately 343,000 pairs for the year ended 31 December 2008. The average selling price of our branded footwear increased significantly from RMB61.4 per pair in 2007 to approximately RMB88.9 per pair in 2008, primarily due to an increase in the sales of our branded non-slipper winter footwear which generally had higher selling prices than that of our branded slippers.

### **Cost of sales**

Cost of sales for our products increased by approximately 13.6% from approximately RMB324.7 million for the year ended 31 December 2007 to approximately RMB368.7 million for the year ended 31 December 2008. Such increase was in line with the increase in our sales.

### **Gross profit and gross profit margin**

Gross profit increased by approximately 24.9% from approximately RMB104.6 million for the year ended 31 December 2007 to approximately RMB130.6 million for the year ended 31 December 2008. Gross profit margin increased from approximately 24.4% for the year ended 31 December 2007 to approximately 26.2% for the year ended 31 December 2008. Such increases were primarily as a result of the following:

#### *OEM products*

Gross profit from our OEM products increased by approximately 21.7% from approximately RMB97.9 million for the year ended 31 December 2007 to approximately RMB119.1 million for the year ended 31 December 2008. This was primarily due to an increase in orders from our OEM customers. Gross profit margin of our OEM products increased from 23.9% for the year ended 31 December 2007 to 25.5% for the year 31 December 2008 primarily due to an increase in sales of our OEM products which enabled us to benefit from economics of scale.

#### *Branded products*

Gross profit from our Boree brand products increased by approximately 71.6% from approximately RMB6.7 million for the year ended 31 December 2007 to approximately RMB11.5 million for the year ended 31 December 2008. Gross profit margin of our Boree brand products increased from 33.1% for the year ended 31 December 2007 to approximately 35.8% for the year ended 31 December 2008. This was primarily due to an increase in the average selling price of our Boree brand products including certain non-slipper footwear products. Such non-slipper footwear products generally have higher average selling prices and higher profit margins than our Boree brand slippers.

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### Other income and gains

Other income and gains increased by approximately 315% from approximately RMB2.0 million for the year ended 31 December 2007 to approximately RMB8.3 million for the year ended 31 December 2008. Such increase was primarily due to the exchange gain in 2008 arising from the realisation of our derivative transactions of RMB6.3 million relating to the forward currency contracts that we entered into in 2008, although the effect of this gain was slightly off-set by the decrease in government subsidies from approximately RMB1.5 million for the year ended 31 December 2007 to approximately RMB0.97 million for the year ended 31 December 2008.

### Selling and distribution costs

Selling and distribution costs increased by approximately 24.6% from approximately RMB11.4 million for the year ended 31 December 2007 to approximately RMB14.2 million for the year ended 31 December 2008, primarily due to an increase of transportation, declaration and inspection costs in relation to our OEM sales of approximately RMB5.8 million for the year ended 31 December 2007 to approximately RMB7.2 million for the year ended 31 December 2008.

### General and administrative expenses

General and administrative expenses increased by approximately 31.5% from approximately RMB13.0 million for the year ended 31 December 2007 to approximately RMB17.1 million for the year ended 31 December 2008, primarily due to an increase in the scale of operations of our Group resulting in an increase in administrative and other staff costs and benefit in kind from approximately RMB7.6 million for year ended 31 December 2007 to approximately RMB11.2 million for year ended 31 December 2008. The increase in general and administrative expenses in 2008 was also due to the various professional fees (including financial due diligence fees and legal fees) incurred in the amount of approximately RMB1.7 million relating to the 2008 Exchangeable Note and our Reorganisation. Further, our audit fee increased from approximately RMB18,000 for the year ended 31 December 2007 to approximately RMB853,000 for the year ended 31 December 2008.

### Other operating expenses

Other operating expenses decreased by approximately 99.8% from approximately RMB0.87 million for the year ended 31 December 2007 to RMB2,000 for the year ended 31 December 2008, primarily due to the fact that we did not make any significant donations in 2008 unlike in 2007 when we made a donation of approximately RMB0.7 million to 泉州慈善總會 (Quan Zhou Ci Shan charity\*).

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### **Profit from operations**

Profit from operations increased by approximately 32.3% from approximately RMB81.3 million for the year ended 31 December 2007 to approximately RMB107.6 million for the year ended 31 December 2008 primarily due to the factors described above.

### **Finance costs, net**

Finance costs increased by approximately 850.0% from approximately RMB2.4 million for the year ended 31 December 2007 to approximately RMB22.8 million for the year ended 31 December 2008, primarily due to interest expense of approximately RMB3.4 million on the 2008 Exchangeable Note and default interest of approximately RMB16.3 million arising from a breach by our Group in 2008 of certain financial covenants under the 2008 Exchangeable Note. The breach was due to our Group not being able to attain the targeted net asset value, profit after tax and debt-to-equity ratio of the year ended 31 December 2007.

### **Profit before tax**

Profit before tax increased by approximately 7.5% from approximately RMB78.9 million for the year ended 31 December 2007 to approximately RMB84.8 million for the year ended 31 December 2008, primarily due to the factors described above.

### **Income tax expense**

Income tax expense increased significantly by approximately 166.0% from approximately RMB10.0 million for the year ended 31 December 2007 to approximately RMB26.6 million for the year ended 31 December 2008, primarily due to an increase in profit before tax as well as an increase in the applicable tax rate of Quanzhou Baofeng which increased to approximately 25.0% for the year ended 31 December 2008 from approximately 12.0% for the year ended 31 December 2007.

The effective tax rate for the year ended 31 December 2008 was approximately 31.4%, which was significantly higher than the effective tax rate of approximately 12.6% for the year ended 31 December 2007. The increase in effective tax rate from 2007 to 2008 was mainly because (i) for the year ended 31 December 2007, our PRC subsidiary was granted a 50% exemption by the government on the basis that our PRC subsidiary was an enterprise involved in export sales and such exemption was applied on the initial CIT rate of 24% which was applicable to enterprises located in Quanzhou — an area which was categorised as a coastal economic open zone of the PRC; and (ii) we have recorded non-deductible expenses relating to the finance cost arising from the 2008 Exchangeable Note for the year ended 31 December 2008 which did not occur in the year ended 31 December 2007. As a result, the effective tax rate increased significantly from 2007 to 2008.



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### Profit for the year

Net profit decreased by approximately 15.5% from approximately RMB68.9 million for the year ended 31 December 2007 to approximately RMB58.2 million for the year ended 31 December 2008, and our net profit margin decreased from approximately 16.1% for the year ended 31 December 2007 to approximately 11.7% for the year ended 31 December 2008 primarily due to the significant increase in income tax expenses as described above.

### LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for the payment of purchases from suppliers, various operating expenses and capital expenditure needs. We have historically financed our liquidity requirements primarily through cash generated from our operating activities, bank loans, shareholders' capital contributions and the 2008 Exchangeable Note. Save and except the 2008 Exchangeable Note, there have been no material changes in our underlying drivers of the sources and uses of cash during the Track Record Period.

Going forward, we believe our liquidity requirements will be satisfied through a combination of the proceeds from the Global Offering, cash generated from operating activities and bank loans. We will use part of the proceeds from the Global Offering to fulfil our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. It is our policy to monitor regularly our liquidity requirements and compliance with debt covenants (if any) to ensure that we maintain sufficient resources of cash and adequate debt or equity financing. We have not experienced and do not expect to experience any difficulties meeting our obligations as they fall due. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, or at all.

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The following table is a condensed summary of our consolidated statements of cash flows for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Net cash flows from operating activities	63,849	132,325	31,615	22,084	161,017
Net cash flows from/(used) in investing activities	(3,141)	(46,580)	(5,330)	(4,940)	1,425
Net cash flows from/(used) in financing activities	(31,048)	(8,271)	17,056	12,797	(37,809)
Net increase in cash and cash equivalents	29,660	77,474	43,341	29,941	124,633
Cash and cash equivalents at beginning of year/period	27,874	57,534	135,163	135,163	178,504
Effect of foreign exchange rate changes, net	—	155	—	—	—
<b>Cash and cash equivalents at end of year/period</b>	<b><u>57,534</u></b>	<b><u>135,163</u></b>	<b><u>178,504</u></b>	<b><u>165,104</u></b>	<b><u>303,137</u></b>

### Cash Flow from Operating Activities

We derive our cash generated from operating activities principally from the receipt of payments for the sale of our products. Our cash used in operating activities is principally for purchases of raw materials, payment of subcontracting fees, salary payments, advertising and marketing expenses and other operating expenses.

For the nine months ended 30 September 2010, we had an operating profit before changes in working capital but after adjustments for non-cash and/or non-operating expenses and income of approximately RMB145.2 million and net cash of approximately RMB161.0 million generated from operating activities. The net cash from operating activities is primarily due to the composite effect of (i) a decrease in inventories of approximately RMB15.5 million as a result of decrease in storage of raw materials and finished goods during the slack season, which generally started from May each year, for our OEM sales. Hence, we had a lower level of raw materials and finished goods as at 30 September 2010; (ii) a decrease in trade receivables of approximately RMB26.7 million as a result of a lower level of sales in August and September 2010 when compared with November and December 2009 as the third quarter was the slack season of our OEM sales, which generally started from May each year; and (iii) a decrease in trade payable of approximately RMB11.8 million as a result of a lower level of purchases of raw materials and OEM finished goods in August and September 2010 when

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compared with November and December 2009 because we intended to maintain a lower level of stock as at 30 September 2010 in view of the slack season which generally started from May each year.

For the nine months ended 30 September 2009, we had an operating profit before changes in working capital but after adjustments for non-cash and/or non-operating expenses and income of approximately RMB81.5 million and net cash of approximately RMB22.1 million generated from operating activities. The net cash from operating activities is primarily due to the composite effect of (i) a decrease in inventories of approximately RMB8.3 million as a result of a decrease in storage of raw materials and finished goods during the slack season for our OEM sales, which generally started from May of each year. Hence, we maintained a lower level of raw materials and finished goods as at 30 September 2009; (ii) a decrease in trade receivables of approximately RMB34.5 million as a result of the lower level of sales in August and September 2009 when compared with November and December 2008 as the third quarter was the slack season of our OEM sales; and (iii) a decrease in trade payables of approximately RMB53.4 million as a result of a lower level of purchases in August and September 2009 when compared with November and December 2008 because we intended to maintain a lower level of stock as at 30 September 2009 in view of the slack season which generally started from May each year.

For the year ended 31 December 2009, we had an operating profit before changes in working capital but after adjustments for non-cash and/or non-operating expenses and income of approximately RMB127.3 million and net cash of approximately RMB31.6 million generated from operating activities. The difference of approximately RMB94.4 million was attributable to an increase in inventories of approximately RMB19.0 million and a decrease in trade payables of approximately RMB20.0 million. The increase in inventories of finished goods was primarily due to an increase in sales orders and accumulation of undelivered finished goods as at the date of stock count (such goods were delivered shortly after stock count). The decrease in trade payables was primarily due to an increase in cash-in-hand, allowing us to repay our obligations more quickly. Such cash used in operating activities was partially offset by an increase in the amount due to a related company of approximately RMB170,000 and an increase in the amount due to a Director of approximately RMB679,000.

For the year ended 31 December 2008, we had an operating profit before changes in working capital but after adjustments for non-cash and/or non-operating expenses and income of approximately RMB108.2 million and net cash of approximately RMB132.3 million generated from operating activities. The difference of approximately RMB24.1 million was attributable to an increase in trade payables of approximately RMB53.0 million and a decrease in inventories of approximately RMB6.7 million. The increase in trade payables was primarily due to our utilisation of credit periods granted by our suppliers. The decrease in inventories was primarily due to improved inventory control and an increase in sales. Such cash used in operating activities was partially offset by an increase in trade receivables of approximately RMB22.2 million as a result of an increase in sales.

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For the year ended 31 December 2007, we had an operating profit before changes in working capital but after adjustments for non-cash and/or non-operating expenses and income of approximately RMB85.0 million and net cash of approximately RMB63.8 million generated from operating activities. The difference of approximately RMB21.2 million was primarily attributable to an increase in inventories of approximately RMB12.1 million. The high level of inventories were primarily due to an increase in raw materials purchased by us in view of the inflation in the prices of raw materials. Such cash used in operating activities was also contributed by an increase in trade receivables of approximately RMB7.6 million as a result of an increase in our sales.

### Cash Flow from/(used) in Investing Activities

We derive our cash generated from investing activities principally from proceeds from the disposal of property, plant and equipment. Our cash used in investing activities is principally for purchasing fixed assets and making deposits, details of which are set out below.

For the nine months ended 30 September 2010, our net cash generated from investing activities was approximately RMB1.4 million, which was primarily due to a refund of deposits paid for a parcel of land of approximately RMB28.3 million, partially offset by additions to prepaid land lease payments of approximately RMB25.1 million and purchases of property, plant and equipment of approximately RMB1.8 million. The background for the return of deposit of approximately RMB28.3 million is set out as follow. Pursuant to a letter of intent signed between Quanzhou Baofeng and 泉州市國土資源局 (The Land and Resource Department of Quanzhou\*) (“**Quanzhou Land Department**”) on 29 April 2008, a deposit of RMB28,260,000 was paid in 2008 by Quanzhou Baofeng for the acquisition of a parcel of land in Quanzhou City, Fujian Province, the PRC (the “**Quanzhou Land**”). In March 2010, we received a confirmation from Quanzhou Land Department that the paid deposit of RMB28,260,000 was to be refunded to us due to a change in the local town planning and that the Quanzhou Land Department shall take possession of the Quanzhou Land. We received the refund of the entire amount of RMB28,260,000 before 30 June 2010 and will not acquire the Quanzhou Land.

For the nine months ended 30 September 2009, our net cash used in investing activities was approximately RMB4.9 million, which was primarily due to additions to property, plant and equipment of approximately RMB2.7 million, and additions to prepaid land lease payments of approximately RMB2.7 million.

For the year ended 31 December 2009, our net cash used in investing activities was approximately RMB5.3 million, which was primarily due to additional prepaid land lease payments of approximately RMB3.1 million and payment for purchases of property, plant and equipment of approximately RMB2.9 million, which were partially offset by proceeds from disposal of property, plant and equipment of approximately RMB675,000.

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For the year ended 31 December 2008, our net cash used in investing activities was approximately RMB46.6 million, which was primarily due to deposits of approximately RMB28.3 million paid by Quanzhou Baofeng for the acquisition of the Quanzhou Land and payment for purchases of property, plant and equipment of approximately RMB18.0 million, partially offset by proceeds from disposal of property, plant and equipment of approximately RMB0.4 million. The paid deposit of approximately RMB28.3 million was refunded to our Group since there was a change in the local town planning and that the Quanzhou Land Department shall take possession of the Quanzhou Land due to a change in the local town planning - see Note 18 of the Accountants' Report in Appendix I to this prospectus.

For the year ended 31 December 2007, our net cash used in investing activities was approximately RMB3.1 million, which was primarily due to payment for purchases of property, plant and equipment of approximately RMB5.3 million, which was partially offset by proceeds from disposal of obsolete and/or old equipment of approximately RMB2.2 million.

### **Cash Flow from/(used in) Financing Activities**

We derive our cash generated from financing activities principally from proceeds from new bank loans and proceeds from capital injection. Our cash used in financing activities is principally for repayment of bank loans and interest payments.

For the nine months ended 30 September 2010, our net cash used in financing activities was approximately RMB37.8 million. Such cash used in financing activities was primarily due to proceeds from bank loans of approximately RMB54.4 million, which was partially offset by repayment of bank loans in an amount of approximately RMB84.2 million and payment of interest of approximately RMB8.0 million.

For the nine months ended 30 September 2009, our net cash generated from financing activities was approximately RMB12.8 million. Such cash generated from financing activities was primarily due to proceeds from bank loans of approximately RMB84.5 million, partially offset by repayment of bank loans in an amount of approximately RMB66.4 million and payment of interest of RMB5.3 million.

For the year ended 31 December 2009, our net cash generated from financing activities was approximately RMB17.1 million, which was primarily due to proceeds from bank loans of approximately RMB119.5 million. Such cash generated from financing activities was partially offset by repayment of bank loans of approximately RMB96.4 million and payment of interest of approximately RMB6.0 million.

For the year ended 31 December 2008, our net cash used in financing activities was approximately RMB8.3 million, which was primarily due to repayment of bank loans of approximately RMB98.6 million, payment of dividends of approximately RMB43.0 million, payment of interest of approximately RMB3.1 million and transaction costs of issuing the 2008 Exchangeable Note of approximately RMB2.2 million. Such cash used in financing activities was partially offset by proceeds from bank loans of approximately RMB70.7 million and proceeds from issue of the 2008 Exchangeable Note of approximately RMB67.9 million.

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For the year ended 31 December 2007, our net cash used in financing activities was approximately RMB31.0 million, which was primarily due to repayment of bank loans of approximately RMB85.1 million and payment of dividends of approximately RMB54.0 million and payment of interest of approximately RMB2.3 million. Such cash used in financing activities was partially offset by proceeds from bank loans of approximately RMB85.4 million and capital contribution from our then Shareholder of approximately RMB25.0 million.

### CAPITAL EXPENDITURE

We have historically funded our capital expenditure from cash generated from business operation, proceeds from bank loans, and capital contributions by our then Shareholders. Our capital expenditure has principally consisted of expenditure on property, plant, equipment, construction in progress and prepaid land lease payments. The following table sets forth a breakdown of our capital expenditures during the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Building, plant and equipment	5,460	18,047	3,566	1,753
Construction in progress	5,420	—	—	—
Prepaid land lease payments	—	2,748	340	25,082
<b>TOTAL</b>	<b><u>10,880</u></b>	<b><u>20,795</u></b>	<b><u>3,906</u></b>	<b><u>26,835</u></b>

Our capital expenditure increased by approximately 91.1% from approximately RMB10.9 million for the year ended 31 December 2007 to approximately RMB20.8 million for the year ended 31 December 2008, primarily due to an increase of RMB10.6 million incurred in relation to the renovation of our offices and staff quarters. Our capital expenditure decreased by approximately 81.2% from approximately RMB20.8 million for the year ended 31 December 2008 to approximately RMB3.9 million for the year ended 31 December 2009, as the above-mentioned renovation was completed in 2008 and no other renovation projects were undertaken by us in 2009.

Our capital expenditure increased by approximately 587.2% from RMB3.9 million for the year ended 31 December 2009 to approximately RMB26.8 million for the nine months ended 30 September 2010, primarily due to a payment made in 2010 relating to the New Land. Quanzhou Baofeng entered into the Co-operation Agreement with the Third Party to co-operatively acquire the land use rights in respect of the New Land in 2006. The Co-operation Agreement provided that, among others, if the parties are successful in obtaining the land use rights in respect of the New Land, the parties shall set up a joint venture project company and that before the parties have done so, the beneficial ownership of the land use rights in respect of the New Land shall rest with the Third Party. Subsequently, a State-owned land use rights grant contract was entered into between Quanzhou Baofeng and the relevant

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local PRC authority pursuant to which the land use rights of the New Land were contracted to be granted to Quanzhou Baofeng at a consideration of RMB5,377,481 (in the form of land premium). Thereafter, the parties entered into a termination agreement, which provided that the Co-operation Agreement shall terminate upon payment in the amount of approximately RMB24.5 million by Quanzhou Baofeng to the Third Party. This sum represents (i) the aggregate cost that the Third Party paid in relation to the New Land up to the date of termination agreement, including the land premium of approximately RMB5.4 million, the service fees in relation to the development and construction, demolition costs and compensation paid in relation to the demolition and relocation regarding the New Land that amounted to approximately RMB16.2 million, and (ii) interest of approximately RMB2.9 million which was calculated at 6% per annum of the above costs from the relevant payment dates. Quanzhou Baofeng was subsequently granted the land use rights in the New Land in June 2010.

We estimate that we will incur further capital expenditure of approximately RMB600,000 for the year ended 31 December 2010 which will mainly be applied for the purchase of equipment and facilities.

### COMMITMENTS

The following table sets out the aggregate amounts of our contractual obligations on a consolidated basis as at 31 December 2007, 2008, 2009 and 30 September 2010:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for commitment in respect of:				
Purchase of items of plant, property and equipment	—	300	—	—
Acquisition of land use rights	—	3,490	3,490	—
Advertising and consultancy services	—	3,742	480	900
Research & development	—	—	—	2,500
<b>TOTAL</b>	<b>—</b>	<b>7,532</b>	<b>3,970</b>	<b>3,400</b>

The contractual commitments as at 30 September 2010 primarily related to advertising and consultancy services, and research and development of our branded products.

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### NET CURRENT ASSETS

Details of our current assets and liabilities as at each of the balance sheet dates during the Track Record Period and as at 30 November 2010 are as follows:

	As at 31 December			As at 30 September	As at 30 November
	2007	2008	2009	2010	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>
<b>CURRENT ASSETS</b>					
Inventories	43,291	36,588	55,623	40,086	42,739
Trade receivables	56,626	82,566	97,241	70,587	75,713
Prepayments, deposits and other receivables	2,610	1,965	4,557	9,561	6,281
Value added tax recoverable	6,029	3,891	6,837	2,116	2,573
Cash and bank balances	<u>57,534</u>	<u>135,163</u>	<u>178,504</u>	<u>303,137</u>	<u>330,264</u>
Total current assets	<u>166,090</u>	<u>260,173</u>	<u>342,762</u>	<u>425,487</u>	<u>457,570</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	12,264	65,276	45,227	33,420	45,274
Deposits received, other payables and accruals	11,399	17,729	11,894	23,525	28,141
Interest-bearing bank borrowings	59,329	31,400	54,500	24,704	33,567
Exchangeable note	—	71,899	80,348	54,679	57,173
Derivative component of exchangeable note	—	—	—	—	—
Amount due to a Director	—	—	679	5,137	9,926
Amount due to a related company	—	—	170	—	—
Dividend payable	—	—	—	60,900	60,900
Tax payable	<u>1,938</u>	<u>8,193</u>	<u>10,412</u>	<u>18,703</u>	<u>16,076</u>
Total current liabilities	<u>84,930</u>	<u>194,497</u>	<u>203,230</u>	<u>221,068</u>	<u>251,057</u>
<b>NET CURRENT ASSETS</b>	<b><u>81,160</u></b>	<b><u>65,676</u></b>	<b><u>139,532</u></b>	<b><u>204,419</u></b>	<b><u>206,513</u></b>

Our net current assets decreased by approximately 19.1% from approximately RMB81.2 million as at 31 December 2007 to approximately RMB65.7 million as at 31 December 2008, primarily due to the recognition of liability component of the 2008 Exchangeable Note of approximately RMB71.9 million and an increase of approximately 430.9% in trade payables from approximately RMB12.3 million as at 31 December 2007 to approximately RMB65.3 million as at 31 December 2008 due to an increase in our sales and hence, an increase in orders placed with our suppliers. Such decrease was partially offset by an increase in cash and cash equivalents due to (1) an increase in profits as a result of increase in sales and (2) proceeds from the issue of the 2008 Exchangeable Note.



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Our net current assets increased by approximately 112.3% from approximately RMB65.7 million as at 31 December 2008 to approximately RMB139.5 million as at 31 December 2009, primarily due to (a) an increase of approximately 32.1% in cash and bank balances from approximately RMB135.2 million as at 31 December 2008 to approximately RMB178.5 million as at 31 December 2009 due to an increase in our profit, (b) an increase of approximately 52.0% in inventories from approximately RMB36.6 million as at 31 December 2008 to approximately RMB55.6 million as at 31 December 2009 due to an increase in our finished goods as a result of an increase in sales orders and accumulation of undelivered finished goods as at the date of inventory count where such goods were delivered shortly after the inventory count and (c) a decrease of approximately 30.7% in trade payables from approximately RMB65.3 million as at 31 December 2008 to approximately RMB45.2 million as at 31 December 2009 primarily due to us having more cash-in-hand, allowing us to repay our obligations more quickly.

Our net current assets increased by approximately 46.5% from approximately RMB139.5 million as at 31 December 2009 to approximately RMB204.4 million as at 30 September 2010, primarily due to (a) an increase of approximately 69.8% in cash and bank balances from approximately RMB178.5 million as at 31 December 2009 to approximately RMB303.1 million as at 30 September 2010 due to cash inflow from operating activities of approximately RMB161.0 million for the nine months ended 30 September 2010, (b) a decrease of approximately 27.9% in inventories from approximately RMB55.6 million as at 31 December 2009 to approximately RMB40.1 million as at 30 September 2010 due to a decrease in our finished goods following the slack season, which generally began from May each year as a result of which, we decided to maintain a lower level of inventory and (c) a decrease of approximately 26.1% in trade payables from approximately RMB45.2 million as at 31 December 2009 to approximately RMB33.4 million as at 30 September 2010 primarily due to a decrease in purchases from suppliers during the slack season.

Based on our unaudited consolidated management accounts as at 30 November 2010, we had net current assets of RMB206.5 million. Our current assets as at 30 November 2010 consisted of inventories of approximately RMB42.7 million, trade receivables of RMB75.7 million, prepayment and other receivables of approximately RMB6.3 million, value added tax recoverable of approximately RMB2.6 million and cash and cash equivalents of approximately RMB330.3 million. Our current liabilities as at 30 November 2010 consisted of trade payables of approximately RMB45.3 million, deposits received, other payables and accruals of RMB28.1 million, interest-bearing bank borrowings of approximately RMB33.6 million, the 2008 Exchangeable Note in the amount of RMB53.7 million, amount due to a Director of approximately RMB9.9 million, tax payable of approximately RMB16.1 million.

The amount due to a Director of approximately RMB9.9 million was fully discharged upon the issuance of 1,903 Shares pursuant to a share subscription agreement dated 21 December 2010.

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### INVENTORY ANALYSIS

During the Track Record Period, inventory was one of the principal components of our current assets. The value of our inventories accounted for approximately 26.1%, 14.1%, 16.2% and 9.4% of our total current assets as at 31 December 2007, 2008 and 2009 and 30 September 2010, respectively.

The following table is a summary of our balance of inventories, which was stated at cost, as at each of the balance sheet dates during the Track Record Period:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	23,418	7,285	5,871	4,404
Work in progress	5,962	9,259	10,175	8,515
Finished goods	13,911	20,044	39,577	27,167
<b>TOTAL</b>	<b><u>43,291</u></b>	<b><u>36,588</u></b>	<b><u>55,623</u></b>	<b><u>40,086</u></b>

Our inventories decreased by approximately 15.5% from approximately RMB43.3 million as at 31 December 2007 to approximately RMB36.6 million as at 31 December 2008, primarily due to our advance bulk purchase of plastics and plastic-related raw materials in 2007 when crude oil prices were volatile during the period.

Our inventories increased by approximately 51.9% from approximately RMB36.6 million as at 31 December 2008 to approximately RMB55.6 million as at 31 December 2009, primarily due to an increase in sales orders and an accumulation of undelivered finished goods as at the date of inventory count where such goods were delivered shortly after inventory count.

Our inventories decreased by approximately 27.9% from approximately RMB55.6 million as at 31 December 2009 to approximately RMB40.1 million as at 30 September 2010 primarily as a result of the decrease in storage of raw materials and finished goods in the third quarter of 2010, which was the slack season of our OEM sales which generally started from May of each year.

No inventory provision was made during the Track Record Period. By 30 November 2010, approximately 66.2% of our inventory as at 30 September 2010 had been subsequently used or consumed.

The following table sets out our average inventory turnover days during the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>
Average inventory turnover days	41.8	39.5	39.8	28.3	31.1

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Notes:

- (1) Average inventory turnover days is equal to the average inventory divided by cost of sales multiplied by 365 days.
- (2) Average inventory turnover days is equal to the average inventory divided by cost of sales and multiplied by 273 days.

Our average inventory turnover days decreased from 41.8 days for the year ended 31 December 2007 to 39.5 days for the year ended 31 December 2008, primarily due to improved inventory control and an increase in sales.

Our average inventory turnover days for the year ended 31 December 2008 and for the year ended 31 December 2009 was maintained at a similar level.

Our average inventory turnover days for the nine months ended 30 September 2009 and for the same period in 2010 were much lower than the average inventory turnover days for each of the three years ended 31 December 2009, primarily because we tended to keep less stock during our slack season which generally started from May each year compared to our peak season which generally started from November each year.

Except when the price of crude oil is volatile such as in 2007 and early 2008, we generally do not procure raw materials and commence production until after receipt of the confirmed purchase orders from our customers. We did not receive any cancelled purchase orders during the Track Record Period. We also carry out physical inventory counts twice a year to identify obsolete or damaged products. As we have been able to keep our inventory at a low level, no provision for inventory was made during the Track Record Period.

### TRADE AND OTHER RECEIVABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other receivables during the Track Record Period:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Trade receivables</b>				
Within 3 months	56,386	82,566	89,988	68,220
3 to 6 months	196	—	7,253	2,367
6 months to 1 year	44	—	—	—
Subtotal	56,626	82,566	97,241	70,587
<b>Prepayments, deposits and other receivables</b>	2,610	1,965	4,557	9,561
<b>Total</b>	<b>59,236</b>	<b>84,531</b>	<b>101,798</b>	<b>80,148</b>

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We generally provided credit periods of three months to our OEM customers. We extend such credit period based on an assessment of individual circumstances conducted by our management team. As regards our distributors, under our previous distributorship agreements, we did not provide a credit period to them and required them to pay a deposit fixed at a specified percentage of the purchase amount up-front and the remaining balance upon delivery. However, we discovered that the provision was seldom adhered to in practice and a credit period of up to three months was generally allowed for our distributors.

We currently provide credit periods of three months to our distributors under our new distributorship agreements.

It is our policy that overdue balances and our receivable balances should be reviewed on an ongoing basis and appropriate assessment is made to determine whether or not provision for impairment will need to be made by the management team. For further details of impairment of trade receivables, please see the sub-section "Impairment of trade receivables" in this section of the prospectus.

In order to minimise our credit risk exposure but at the same time to keep good relationships with our customers, we will continue granting credit periods of three months to our OEM customers and our distributors under our new distributorship agreements. Details of the movements in the provision for impairment of trade receivables during the Track Record Period are set out in the sub-section "Impairment of trade receivables" in this section of the prospectus.

The increase in the balance of trade receivables from approximately RMB56.6 million as at 31 December 2007 to approximately RMB82.6 million as at 31 December 2008 was primarily due to an increase in sales by approximately 16.3% from 2007 to 2008 and implementation of the credit term of three months offered to our customers as a result of the financial turmoil emerged in late 2008. Our balance of trade receivables increased further to approximately RMB97.2 million as at 31 December 2009 was primarily due to an increase in receivables from distributors as a result of an increase in sales of our branded products from approximately RMB32.0 million for the year ended 31 December 2008 to RMB120.6 million for the year ended 31 December 2009. Our balance of trade receivables decreased from approximately RMB97.2 million as at 31 December 2009 to approximately RMB70.6 million as at 30 September 2010. This was primarily due to a decrease in sales of our OEM products in the third quarter of the year 2010, which was the slack season for our OEM sales, when compared to that of the last quarter of the year 2009.

Up to 30 November 2010, approximately RMB68.5 million of our trade receivables as at 30 September 2010 of RMB70.6 million had been settled.

Prepayments, deposits and other receivables as at 31 December 2007 were approximately RMB2.6 million, primarily consisting of prepayments to suppliers and sub-contractors in an amount of RMB1.6 million and prepaid land lease payments in the amount of RMB0.068 million. Prepayments, deposits and other receivables as at 31 December 2008 were approximately RMB2.0 million, primarily consisting of prepayments to suppliers and

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sub-contractors in an amount of RMB1.5 million and prepaid land lease payments in the amount of RMB0.068 million. Prepayments, deposits and other receivables as at 31 December 2009 were approximately RMB4.6 million, primarily consisting of prepaid rental for the High-Tech Asset Production Property. Prepayments, deposits and other receivables as at 30 September 2010 were approximately RMB9.6 million, primarily consisting of prepayment to suppliers and sub-contractors of approximately RMB0.4 million, prepaid advertising fee of approximately RMB1.7 million, prepaid rental of approximately RMB3.1 million, prepaid IPO related expenses of approximately RMB2.9 million and deposits relating to 2010 Shanghai World Expo expenses of approximately RMB0.7 million. The increase in prepayments, deposits and other receivables for the above periods of approximately RMB5.0 million was primarily due to an increase in the prepaid advertising fee, prepaid IPO-related expenses and the 2010 Shanghai World Expo expenses mentioned above.

The following table sets forth our average trade receivables turnover days during the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>
	<b>Average trade receivables turnover days</b>	51.4	50.9	55.8	41.8

Notes:

(1) Average trade receivables turnover days is equal to the average trade receivables divided by revenue and multiplied by 365 days.

(2) Average trade receivables turnover days is equal to the average trade receivables divided by revenue and multiplied by 273 days.

Our average trade receivables turnover days for each of the three years ended 31 December 2009 were maintained at a similar level.

Our average trade receivable turnover days for the nine months ended 30 September 2010 and for the same period in 2009 were lower than the average trade receivable turnover days for each of the three years ended 31 December 2009, primarily because the peak season for the sale of our slippers generally started from November of each year, which was followed by a comparatively slack season which generally started from May for each of those years. This resulted in a comparatively shorter average trade receivable turnover days for the first three quarters of the year as a result of decreased orders during our slack season as compared to those during our peak season. Our average trade receivable turnover days for the nine months ended 30 September 2009 and for the same period in 2010 were in line and maintained at a similar level.

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### Impairment of trade receivables

We estimate 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 judgments. 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 amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the impairment allowances at each financial year end.

The movements in the provision for impairment of trade receivables during the Track Record Period are as follows:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	4,276	4,027	—	—
Amount written off as uncollectible	(249)	(240)	—	—
Impairment losses reversed	—	(3,787)	—	—
<b>At end of the year/period</b>	<b><u>4,027</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>

Our provision for impairment of trade receivables decreased from approximately RMB4.3 million as at 1 January 2007 to approximately RMB4.1 million as at 31 December 2007 as a result of approximately RMB0.2 million written-off of uncollectible amounts. As at 31 December 2008, there was no outstanding balance of provision for impairment of trade receivable as a result of (i) the written-off of uncollectible amounts of approximately RMB0.2 million and (ii) the reversal of impairment of trade receivables of approximately RMB3.8 million as a result of the collection of trade receivables during the year ended 31 December 2008, for which provision for impairment was made in 2006. Based on our past experience and repayment history, our Directors considered that no additional provision for impairment was necessary for the trade receivable balances as at 31 December 2009 and 30 September 2010.

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### TRADE AND OTHER PAYABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other payables for the Track Record Period:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Trade payables</b>				
Within 3 months	12,264	65,276	45,227	33,420
<b>Deposits received, other payables and accruals</b>				
Deposits received	—	4,036	1,560	2,390
Accruals	5,597	8,848	8,161	7,811
Other payables	5,802	4,845	2,173	13,324
<b>Sub-total</b>	<u>11,399</u>	<u>17,729</u>	<u>11,894</u>	<u>23,525</u>
<b>Trade and other payables</b>	<u><b>23,663</b></u>	<u><b>83,005</b></u>	<u><b>57,121</b></u>	<u><b>56,945</b></u>

Our trade and other payables primarily relate to the purchase of raw materials from our raw material suppliers and subcontracting fees payable to our sub-contractors, which are non-interest-bearing with credit terms of two to three months.

Our deposits received as at 31 December 2008 primarily consisting of the advance payments received from certain OEM customers, and our deposits received as at 31 December 2009 and 30 September 2010 primarily consisting of the deposits contributed by our distributors pursuant to our distributorship agreements.

Our accruals increased by approximately 57.1% from approximately RMB5.6 million as at 31 December 2007 to approximately RMB8.8 million as at 31 December 2008, primarily due to an increase in labour costs as a result of an increase in sales orders which led to an increase in our production and labour costs. Our accruals as at 31 December 2009 were maintained at a similar level as compared to that as at 31 December 2008. Our accruals as at 30 September 2010 was RMB7.8 million, primarily consisting of accrued salaries of approximately RMB6.1 million.

Our other payables as at 31 December 2007 was approximately RMB5.8 million, primarily consisting of construction fee payables in the amount of approximately RMB5.7 million. Our other payables as at 31 December 2008 was approximately RMB4.8 million, primarily consisting of payable for land use rights of approximately RMB2.7 million and legal, professional fees payable in amount of approximately RMB1.0 million relating to the 2008 Exchangeable Note. Our other payable as at 31 December 2009 was approximately RMB2.2 million, primarily consisting of an exchange rate subsidy of approximately RMB1.4 million payable to CITIC Capital in accordance with the Note Agreement and audit fee of

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approximately RMB0.6 million. Our other payables as at 30 September 2010 were approximately RMB13.3 million, primarily consisting of payables of listing-related expenses of approximately RMB5.5 million, payable for audit fee of approximately RMB1.6 million and advertising agent fee payable of approximately RMB4.1 million.

The following table sets forth our average trade payable turnover days for the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>
<b>Average trade payable turnover days</b>	13.0	38.4	47.7	33.6	25.6

*Notes:*

- (1) *Average trade payable turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days.*
- (2) *Average trade payable turnover days is equal to the average trade payables divided by cost of sales and multiplied by 273 days.*

Our average trade payable turnover days increased from 13.0 days for the year ended 31 December 2007 to 38.4 days for the year ended 31 December 2008, and from 38.4 days for the year ended 31 December 2008 to 47.7 days for the year ended 31 December 2009. The significant difference in the average trade payable turnover days was primarily due to the settlement of payments of our advance bulk purchase of plastic and plastic-related raw materials in 2007 following the volatility in the crude oil price observed in the preceding year shortly before the year end of 2007. The increase in the average trade payable turnover days in subsequent two years were due to our utilisation of the credit period granted by our suppliers.

Our average trade payable turnover days for the nine months ended 30 September 2009 and for the same period in 2010 were much lower than the average trade payable turnover days for the year ended 31 December 2008 and 2009, primarily because November to April was the peak season of the sales of our slippers, which was followed by a comparatively slack season in the third quarter in each of those years. Our trade payable turnover days decreased from approximately 47.7 days for the year ended 31 December 2009 to approximately 25.6 days for the nine months ended 30 September 2010. This was primarily attributable to the combined effect of (i) a decrease in the purchase of raw materials in the second and third quarters of the year 2010 which covered our slack season leading to a decrease in our trade payables as at 30 September 2010 and (ii) an increase in monthly average cost of sales for the nine months ended 30 September 2010 when compared to that of the year ended 31 December 2009.



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The extent of our average trade payable turnover days in the near future will depend primarily on various factors such as credit terms granted by our suppliers and our ability to satisfy payment obligations with our suppliers. Going forward, insofar as our cash flows permits, we intend to satisfy our payment obligations with our suppliers before their due date to maintain our future average trade payable turnover days at the current level to keep our good relationships with our suppliers.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in our consolidated financial information included in the Accountants' Report set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms that were better to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

### INDEBTEDNESS

#### Borrowings

The following table sets out our indebtedness as at each of the balance sheet dates during the Track Record Period and as at 30 November 2010:

	As at 31 December			As at 30 September	As at 30 November
	2007	2008	2009	2010	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans - unsecured	29,000	31,400	29,500	15,000	15,000
Bank loans - secured	30,329	—	25,000	9,704	18,567
2008 Exchangeable Note	—	71,899	80,348	54,679	57,173
Amount due to a Director	—	—	679	5,137	9,926
	59,329	103,299	135,527	84,520	100,666

The above bank loans bear fixed interest rates and the following table sets out the range of the fixed interest rates as at the dates indicated:

	As at 31 December			As at 30 September	As at 30 November
	2007	2008	2009	2010	2010
	%	%	%	%	%
Range of interest rates per annum	5.8 to 7.7	5.3 to 8.2	4.4 to 5.3	3.0 to 5.6	3.0 to 5.6

Due to the short maturity of the above current bank loans, their carrying amounts are approximately equal to their fair values.

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As at 30 November 2010, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total unaudited indebtedness amounted to approximately RMB100.7 million, consisting of unsecured bank loans of approximately RMB15.0 million, secured bank loans of approximately RMB18.6 million, the 2008 Exchangeable Note of approximately RMB57.2 million and amount due to a Director of approximately RMB9.9 million.

As at 30 November 2010, our Group had banking facilities of RMB130.0 million, of which approximately RMB33.6 million were utilised.

All the above unsecured and secured bank loans were payable within one year.

The bank loans of approximately RMB18.6 million as at 30 November 2010 were secured by the pledge of our Group's trade receivables of RMB21.1 million. The unsecured bank loans of approximately RMB5.0 million were supported by corporate guarantees from 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited\*), a company beneficially owned by Mr. Sze, our Director and a Controlling Shareholder.

The unsecured bank loan of RMB5.0 million was fully repaid on 21 December 2010, and accordingly the corporate guarantee from 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited\*) was released before the Listing Date.

The 2008 Exchangeable Note of approximately RMB57.2 million as at 30 November 2010 was secured by the Exchangeable Note Securities which will be duly released and discharged on the Listing Date and prior to the commencement of trading of the Shares on the Stock Exchange as further detailed in the sub-section headed "History, Reorganisation, and Group Structure — Pre-IPO Investment by CITIC Capital" in this prospectus.

The amount due to a Director was approximately RMB9.9 million as at 30 November 2010. Our Group's obligation to repay the Director was fully discharged upon the issuance of certain Shares pursuant to a share subscription agreement dated 21 December 2010. For details of the share subscription agreement, please see the sub-section headed "History, Reorganisation, and Group Structure — Reorganisation" in this prospectus.

The secured bank loans of approximately RMB25.0 million as at 31 December 2009 and approximately RMB9.7 million as at 30 September 2010 were secured by a pledge of our trade receivables amounting to approximately RMB26.3 million and RMB11.3 million, respectively.

The unsecured bank loans of approximately RMB24.5 million as at 31 December 2009 and approximately RMB10.0 million as at 31 December 2008 were guaranteed by 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited\*), a company beneficially owned by Mr. Sze, our Director and a Controlling Shareholder. Such unsecured bank loans have been fully repaid and accordingly, the guarantee was released before the Listing Date.

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## FINANCIAL INFORMATION

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The bank loan of approximately RMB30.3 million as at 31 December 2007 was secured by a pledge of our trade receivables amounting to approximately RMB33.7 million. The bank loan of approximately RMB9.0 million as at 31 December 2007 was guaranteed by 福建寶峰輕工有限公司 (Fujian Baofeng Light Industry Co., Ltd.), a company in which Mr. Zheng Liuhe, our Director, was its former director. The guarantee expired on 29 March 2008.

On 22 September 2008, our Company issued and sold to CITIC Capital, and CITIC Capital purchased from our Company the 2008 Exchangeable Note with an aggregate principal amount of US\$10,000,000 (equivalent to approximately RMB67,915,000) with 6% interest during the first year after the issuance of the 2008 Exchangeable Note and 8% for each year thereafter. As at 30 September 2010, the 2008 Exchangeable Note amounted to RMB54,679,000 and was accounted for as a current liability. For details of the principal terms of the 2008 Exchangeable Note, please refer to the sub-section headed “History, Reorganisation and Group Structure — Pre-IPO Investment by CITIC Capital” in this prospectus.

### **Gearing ratios**

Our gearing ratio was approximately 40.0%, 54.8%, 46.3% and 33.3% as at 31 December 2007, 2008 and 2009 and 30 September 2010, respectively. Gearing ratio is total debt divided by the total equity plus total debt. Total debt includes interest-bearing bank borrowings, trade payables, deposits received, other payables and accruals, the 2008 Exchangeable Note and amounts due to a Director and a related company. Total equity represents equity attributable to owners of our Company.

Our gearing ratio increased from approximately 40.0% as at 31 December 2007 to approximately 54.8% as at 31 December 2008 primarily due to the 2008 Exchangeable Note issued by our Company. Our gearing ratio decreased from approximately 54.8% as at 31 December 2008 to approximately 46.3% as at 31 December 2009 primarily due to an increase in our cash-in-hand, allowing us to repay our trade payables and short-term loans. Our gearing ratio decreased from approximately 46.3% as at 31 December 2009 to approximately 33.3% as at 30 September 2010 primarily due to an increase in cash and bank balances as a result of the net cash inflow from our operating activities for the period ended 30 September 2010.

### **Contingent liabilities**

As at 30 November 2010, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

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## FINANCIAL INFORMATION

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### Disclaimers

Save as disclosed in the sub-section headed “Financial Information — Indebtedness” in this section of the prospectus, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 November 2010. Our Directors confirm that, since 30 November 2010, there had been no material change in our indebtedness and contingent liabilities.

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2010

Estimated consolidated profit attributable to owners of our Company <sup>(1)</sup> .....	not less than RMB110.2 million
Unaudited pro forma estimated earnings per share <sup>(2 and 3)</sup> .....	RMB0.11 (approximately HK\$0.13)

The estimated consolidated profit attributable to the owners of the Company for the year ended 31 December 2010 is approximately RMB110.2 million of which approximately RMB104.5 million and RMB5.7 million represents the profit for the nine months ended 30 September 2010 and for the three months ended 31 December 2010, respectively. Our estimated net profit margin decreased from approximately 16.5% for the nine months ended 30 September 2010 to approximately 2.8% for the three months ended 31 December 2010. This is mainly attributable to the combined effect of (i) the accrual of the professional fees in relation to the Listing in the amount of approximately RMB11.7 million which accounted for approximately 5.7% of our estimated sales for the three months ended 31 December 2010 when compared to that of approximately RMB8.6 million for the nine months ended 30 September 2010 which accounted for approximately 1.4% of the sales, (ii) the increase in the proportion of advertising and marketing expenses from approximately 4.3% of sales for the nine months ended 30 September 2010 (in an amount of approximately RMB27.3 million) to approximately 8.6% of the estimated sales for the three months ended 31 December 2010 (in an amount of approximately RMB17.5 million) mainly due to the brand building activities to promote our Boree and Baofeng brands in the PRC and (iii) the recognition of a one-off finance income derived from the waiver of maturity yield payment of the 2008 Exchangeable Note arising from the restructuring of the terms thereof in the amount of approximately RMB20.3 million for the nine months ended 30 September 2010. As such, there was a net finance income of approximately RMB9.7 million for the nine months ended 30 September 2010 as compared to the estimated net finance costs of approximately RMB4.1 million for the three months ended 31 December 2010. The estimated net finance costs for the three months ended 31 December 2010 largely represents the interest expenses accrued for the 2008 Exchangeable Note and the Group’s bank borrowings.

## FINANCIAL INFORMATION

**Notes:**

1. The bases on which the above estimated consolidated profit attributable to the owners of our Company for the year ended 31 December 2010 have been prepared are summarised in Appendix III to this prospectus.
2. The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the owners of our Company for the year ended 31 December 2010 and assuming a total of 1,000,000,000 Shares had been in issue throughout the year ended 31 December 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, or the Issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate.
3. The unaudited pro forma estimated earnings per Share is converted into Hong Kong Dollars at an exchange rate of RMB1.00 to HK\$1.17.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted net tangible assets of our Group which is based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 September 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group.

	<b>Audited consolidated net tangible assets attributable to owners of our Company as at 30 September 2010</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	
	<i>RMB'000<sup>(1)</sup></i>	<i>RMB'000<sup>(2)</sup></i>	<i>RMB'000</i>	<i>RMB<sup>(3)</sup></i>	<i>HK\$<sup>(4)</sup></i>
Based on the maximum indicative Offer Price of HK\$2.98 per Share	283,860	603,725	887,585	0.89	1.04
Based on the minimum indicative Offer Price of HK\$1.99 per Share	283,860	398,127	681,987	0.68	0.80

**Notes:**

1. The audited consolidated net tangible assets attributable to the owners of our Company as at 30 September 2010 are based on audited consolidated net assets attributable to the owners of our Company as at 30 September 2010 of approximately RMB283,860,000 as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 250,000,000 New Shares at the maximum indicative and minimum indicative Offer Price of HK\$2.98 and HK\$1.99 per Offer Share, respectively, after deduction of underwriting fees and other related fees and expenses incurred by our Company since 1 October 2010. The calculation of such estimated net proceeds does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates approved on 8 January 2011 which is set out in Appendix VI to this prospectus.

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## FINANCIAL INFORMATION

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3. *The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 1,000,000,000 Shares in issue immediately following completion of the Global Offering. It does not take into account any Shares which may be issued upon exercise of the Over-allotment Option.*
4. *The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share are converted into Hong Kong Dollars at an exchange rate of RMB1.00 to HK\$1.17.*
5. *By comparing the valuation of our property interests as set out in Appendix IV to this prospectus, the net valuation surplus is approximately RMB11.9 million as compared to the carrying amounts of our Group's property interests as at 30 November 2010, which has not been included in the above consolidated net tangible assets attributable to the owners of our Company. The valuation surplus will not be incorporated in the Group's financial statements for the year ended 31 December 2010 because it is the Group's accounting policy to state the property interests, classified under the sub-sections headed "Property, plant and equipment" and "Prepaid land lease payments" in Appendix I to this prospectus, at cost less accumulated depreciation/amortisation and impairment rather than at revalued amounts. If the valuation surplus was recorded in the Group's financial statements for the year ended 31 December 2010, an additional depreciation/amortisation of approximately RMB572,000 per annum would have been incurred.*

### DIVIDEND AND DIVIDEND POLICY

Save for the aforementioned, no other dividends were paid by us or any of our subsidiaries to their then Shareholders during the Track Record Period.

We declared and paid dividends of approximately RMB50.0 million and RMB43.0 million, for the year ended 31 December 2007 and 2008, respectively. No dividend was declared for the year ended 31 December 2009 and we declared an interim dividend of HK\$70 million on 11 September 2010. As at the Latest Practicable Date, the amount of our declared but unpaid dividend was HK\$70 million. The payment of such declared but unpaid dividend will be made by way of a dividend payment from Quanzhou Baofeng to Baof HK and a dividend payment by Baof HK to our Company. The payments for all the above dividends by our Company, Baof HK and Quanzhou Baofeng are expected to be made on or before 31 March 2011 upon the due completion of the relevant registration with SAFE. For the purpose of arranging the payment of these dividends, we have deposited the relevant amount into an escrow account maintained with a commercial bank in the PRC and have engaged an independent third party escrow agent who will release the fund in the account for remittance to Baof HK upon due completion of the relevant registration with SAFE. Save for the aforementioned, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

The recommendation of the payment of dividend is subject to the discretion of our Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman company law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

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## FINANCIAL INFORMATION

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Future dividend payments will also depend upon the availability of dividends received from our foreign-invested subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our foreign invested subsidiary may also be restricted if it incurs debt or losses or pursuant to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Subject to the factors above, our Board currently intends to recommend, at the relevant Shareholders' meetings of our Company, an annual dividend of not less than 25.0% of the net profit attributable to owners of our Company for the financial years subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay dividends at all. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

### DISTRIBUTABLE RESERVES

As at 30 September 2010, our reserves available for distribution to our owners amounted to approximately RMB334.1 million which represents our share premium, contributed surplus and retained earning. The Cayman company law provides that share premium account, contributed surplus and retained earning account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

### PROPERTY INTERESTS

BMI Appraisals Limited, an independent property valuer, has valued the property interests attributable to us, as at 30 November 2010 at approximately RMB77.6 million. The full text of its letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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Disclosure of the reconciliation of the valuation of our property interests and such property interests in our consolidated statement of financial position as at 30 November 2010 as required under Rule 5.07 of Listing Rules is set forth below:

	RMB (in million)
Net book value as at 30 September 2010	
Property, plant and equipment - Building	31.6
Prepaid land lease payment	<u>30.8</u>
	<u>62.4</u>
Movement for the period from 30 September 2010 to 30 November 2010	
Addition	3.7
Disposal	—
Depreciation/amortisation	<u>0.4</u>
Net book value as at 30 November 2010	65.7
Valuation surplus as at 30 November 2010	<u>11.9</u>
Valuation as at 30 November 2010	<u>77.6</u>

### DERIVATIVES

Our Group has entered into derivative transactions, including principally forward currency contracts. The forward currency contract is an agreement for us to purchase or sell the currency at a future date for a price agreed upon at the time of the contract. The purposes are to, among others, manage the currency risks arising from our Group's operations. We entered into forward currency contracts for USD/RMB, EUR/RMB and Pounds/RMB in 2007 and 2008. There were five forward currency contracts for USD/RMB with total face value of approximately US\$13.6 million which had not yet matured and there were five forward currency contracts for EUR/RMB with total face value of EUR10.0 million which were not yet matured as at 31 December 2007. There were three forward currency contracts for USD/RMB with total face value of US\$3.9 million which had not yet matured as at 31 December 2008.

No new forward currency contract was entered into during 2009 and 2010. There was no outstanding forward currency contract as at 31 December 2009 and as at 30 September 2010, respectively. It is our policy not to enter into any forward currency contracts.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that as at the Latest Practicable Date there has been no material adverse change in our financial or trading position or prospects since 30 September 2010, being the date to which our latest audited financial statements were prepared.



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## FINANCIAL INFORMATION

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### WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the financial resources presently available to our Company, including banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, our Company has sufficient working capital for its working capital requirements for at least the next 12 months from the date of this prospectus.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### MARKET RISK

Our Group's principal financial instruments comprise bank borrowings, the 2008 Exchangeable Note, cash and bank balances. The main purpose of these financial instruments is to raise finance for our Group's operations. Our Group has various financial assets and liabilities such as trade receivables, other receivables, trade payables and other payables, which arise directly from its operations.

Our Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from our Group's operations. It is, and has been, throughout the year/period under review, our Group's policy that no trading in financial instruments shall be undertaken.

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

#### Foreign currency risk

Our Group has transactional currency exposures. Such exposures arise from sales transactions and financing denominated in USD.

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## FINANCIAL INFORMATION

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

	Increase/ (decrease) in USD rate	Increase/ (decrease) in our Group's profit before tax
	%	<i>RMB'000</i>
<b>31 December 2007</b>		
If USD strengthens against RMB	5	(1,611)
If USD weakens against RMB	(5)	1,611
<b>31 December 2008</b>		
If USD strengthens against RMB	5	(3,023)
If USD weakens against RMB	(5)	3,023
<b>31 December 2009</b>		
If USD strengthens against RMB	5	(2,280)
If USD weakens against RMB	(5)	2,280
<b>30 September 2010</b>		
If USD strengthens against RMB	5	(2,724)
If USD weakens against RMB	(5)	2,724

### Credit risk

Our Group trades only with recognised and creditworthy customers. It is our 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 on-going basis and our Group's exposure to bad debts is not significant.

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

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

### Interest rate risk

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

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## FINANCIAL INFORMATION

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### **Liquidity risk**

Our Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. Our 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.

### **Commodity price risk**

The principal type of raw material used in the production of our Group's products is plastic (including plastic-related materials). Our Group is exposed to fluctuations in the price of plastic which is influenced by global as well as regional supply and demand conditions. Fluctuations in the price of this raw material could adversely affect our Group's financial performance. Our Group has not entered into any commodity derivative instruments to hedge against the risk of adverse changes to commodity prices.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS AND PROSPECTS

Please see the section headed “Our Business — Our Business Strategies” in this prospectus for further details on our future plans.

### USE OF PROCEEDS

The aggregate net proceeds from the Global Offering excluding net proceeds from the sale of the Sale Shares accruing to our Group are estimated to be approximately HK\$574.0 million (approximately RMB490.6 million) (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.49 per Share, being the mid-point of the proposed Offer Price ranging from HK\$1.99 to HK\$2.98 per Share). We intend to use the net proceeds from the Global Offering as follows:

- approximately 35%, or HK\$200.9 million (approximately RMB171.7 million), conditional upon obtaining the necessary approvals, to increase our production capacity progressively by constructing new production facilities in two phases on the New Land and installing additional production lines at the Huoju Production Facility. We plan to construct two twelve-storey buildings for standard workshops and warehouses on the New Land. We plan to install additional production lines in these standard workshops to increase our production capacity. Phase 1 of the construction project is scheduled for completion in April 2012 and Phase 2 of the construction project is scheduled for completion in November 2016. Upon completion of the construction project on the New Land, the maximum annual production capacity that can be supported by our new production facilities is expected to be approximately 94 million pairs of footwear, wherein the production facilities built in Phase 1 can support a maximum annual production capacity of approximately 47 million pairs of footwear and Phase 2 can support a maximum annual production capacity of approximately 47 million pairs of footwear. We will install additional production lines at our new production facilities in accordance with our production capacity needs, which will be assessed by our management team from time to time. Details regarding the above development of our facilities are set out in the sub-section headed “Our Business — Production — Our production facilities and capacities” in this prospectus;
- approximately 25%, or HK\$143.5 million (approximately RMB122.7 million), 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, we plan to use promotional posters, organise promotional events and place advertisements on television, newspapers and magazines;
- approximately 15% or HK\$86.1 million (approximately RMB73.6 million) to acquire branded product businesses when suitable opportunities arise;

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), 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;
- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), towards pursuing expansion opportunities by (1) establishing flagship shops and showrooms in first-tier cities such as Beijing, Guangzhou, Shanghai, Shenzhen and Hong Kong; and (2) establishing market presence in other countries in Asia;
- approximately 5%, or HK\$28.7 million (approximately RMB24.5 million), 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
- as to the remaining balance of approximately 10%, or HK\$57.4 million (approximately RMB49.1 million), towards our general working capital and other general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$119.1 million or decrease by approximately HK\$121.5 million, respectively. In this event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$701.0 million, assuming an Offer Price of HK\$2.49 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase by approximately HK\$144.1 million or decrease by approximately HK\$147.0 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportion stated above.

Pending the use of the net proceeds from the Global Offering for the purposes set out above and/or if we are unable to effect any part of our future development plans as intended, we intend to hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as it would be in our best interests. We will also disclose the same in the relevant annual report.

No proceeds from the sale of the Sale Shares under the Global Offering will accrue to our Company.

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## UNDERWRITING

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### SOLE GLOBAL COORDINATOR

CMB International Capital Limited

### HONG KONG UNDERWRITERS

#### Sole Lead Manager

CMB International Securities Limited

#### Co-lead Managers

OSK Securities Hong Kong Limited  
Daewoo Securities (Hong Kong) Limited

#### Co-Managers

Essence International Financial Holdings Limited  
Haitong International Securities Company Limited  
VC Brokerage Limited  
Wing Lung Securities Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offer

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination with immediate effect by written notice from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) to our Company if any of the following events occur at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator:
  - (i) that any statement contained in the web proof information pack, the formal notice or this prospectus, the Application Forms, the preliminary offering circular together with pricing information or any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) (collectively the “**Offer Documents**”) was, when it was issued, or has become untrue, incorrect or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation expressed in the Offer Document is not, in the sole and absolute discretion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
  - (iii) any breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Sole Global Coordinator or the Underwriters); or
  - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the warrantors under the Hong Kong Underwriting Agreement pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement; or
  - (v) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any member of our Group which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or

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## UNDERWRITING

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- (vi) any breach of any of the warranties given by the warrantors under the Hong Kong Underwriting Agreement, or any matter, circumstance or event showing any of the representations, warranties and undertakings given by the warrantors under the Hong Kong Underwriting Agreement or in the International Underwriting Agreement to be untrue, incorrect, inaccurate or misleading when given or repeated; or
  - (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued or sold (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
  - (viii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription/ sale of the Offer Shares) or the Global Offering; or
  - (ix) any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
  - (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Companies Ordinance, the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC; or
  - (xi) any prohibition on our Company by a governmental authority for whatever reasons from offering, allotting, issuing or selling of the Shares (including the Shares pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering.
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation or devaluation of the Renminbi or



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## UNDERWRITING

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Hong Kong dollars against any foreign currencies, respectively) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union, Japan, the Cayman Islands or any relevant jurisdiction (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”);

- (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction;
- (iii) any event or series of events in the nature of force majeure (whether or not covered by insurance or responsibility has been claimed) including, without limitation, acts of government, strikes, lock-outs, fire, explosions, flooding, earthquakes, epidemics, pandemics, outbreaks of infections, diseases, SARS and H5N1 and any related or mutated forms of infectious diseases, civil commotions, economic sanctions, public disorder, social or political crises, acts of war, acts of terrorism, acts of God, accidents or interruptions or delays in transportation in or affecting any Relevant Jurisdiction;
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the Tokyo Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Hong Kong, the PRC or the Cayman Islands declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction;
- (vi) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares;
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction;
- (viii) any litigation, legal action or claim being threatened or instigated against any member of our Group;
- (ix) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any action against any Director or any member of our Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organisation that it intends to take any such action;

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## UNDERWRITING

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- (x) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xi) the chairman or chief executive officer of our Company vacating his or her office in circumstances where the operations of our Group will be materially and may, in the sole and absolute discretion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), be adversely affected;
- (xii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group;
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) or any aspect of the Global Offering with the Listing Rules, the Articles of Association, the Companies Ordinance, the Companies Law, the SFO or any other applicable laws by any of the warrantors under the Hong Kong Underwriting Agreement;
- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity, or
- (xv) any change or development involving a prospective change, or a materialization of, any of the risk factors set out in the section headed “Risk Factors” in this prospectus,

which in each case or in the aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters): (a) is or may or will or could be expected to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Company or our Group or any member of our Group or on any present or prospective shareholder in his, her or its capacity as such; or (b) has or may or will have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or (c) makes it or may or will make it impracticable, inadvisable or inexpedient for the Global Offering to proceed or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or (d) has or may or will have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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## UNDERWRITING

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### **Undertakings to the Stock Exchange under the Listing Rules**

#### ***By us***

We have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) without the prior consent of the Stock Exchange, except in the circumstances prescribed by Rule 10.08 of the Listing Rules.

#### ***By Controlling Shareholders***

Each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering, the 2008 Exchangeable Note, the Over-allotment Option or the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) at any time within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; or
- (b) at any time during the six-month period commencing on the date on which the period mentioned in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder(s).

Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he or it pledges or charges any Shares or other securities of our Company beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities of our Company so pledged or charged; and

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## UNDERWRITING

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- (b) when he or it receives any indications, either verbal or written, from any pledgee or charge that any of the pledged or charged Shares or securities will be disposed of, immediately inform us of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***By us***

We have undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Lead Manager and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and any options which may be granted under the Share Option Scheme, we will not, and will procure that our subsidiaries will not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-month Period**”):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the First Six-month Period (the “**Second Six-month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of our Company.

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### ***By our Controlling Shareholders***

Each of our Controlling Shareholders has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Lead Manager and the Hong Kong Underwriters that, except pursuant to the Global Offering, the 2008 Exchangeable Note, the Capitalisation Issue, the Over-allotment Option or if applicable, the Stock Borrowing Agreement, it will not, and will procure that none of its associates will, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), at any time during the First Six-month Period:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, directly or indirectly, by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (a) or (b) or (c) above, whether any such transaction described in paragraph (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

In addition, during the Second Six-month Period, each of our Controlling Shareholders will not enter into any of the foregoing transactions described in (a), (b), (c) or (d) if, immediately following such transaction, it will cease to be a Controlling Shareholder of our Company or would together with the other Controlling Shareholders cease to be Controlling Shareholders of our Company.

Until the expiry of the Second Six-month Period, in the event that any of our Controlling Shareholders enters into any of the foregoing transactions described in (a), (b), (c) or (d), it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.

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## UNDERWRITING

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Each of our Controlling Shareholders has further undertaken to our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Lead Manager and the Hong Kong Underwriters that it will, at any time before the expiry of the Second Six-month Period:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any share capital or other securities of our Company or any interests therein in respect of which it is the beneficial owner, immediately inform our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such pledge or charge together with the number of Shares or other securities so pledged or charged; and
- (b) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged shares or securities or interests in the shares or other securities of our Company will be disposed of, immediately inform our Company, the Sole Global Coordinator and the Sole Lead Manager (for itself and on behalf of the other Hong Kong Underwriters) in writing of such indications.

Our Company will inform the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator and the Sole Lead Manager in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Each of our Company and our Controlling Shareholders agrees and undertakes that it will not, and each Controlling Shareholder further undertakes to procure that Company will not, effect any transactions of Shares, or agree to do so, which may reduce the holdings of Shares of persons other than the Directors, chief executives, substantial shareholders or their respective associates to below 25% within the First Six Months Period without first having obtained the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters).

### **Undertakings by CITIC Capital**

Pursuant to a letter of agreement dated 17 January 2011, subject to certain conditions, CITIC Capital has undertaken to each of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Lead Manager (for itself and on behalf of the other Underwriters) that except pursuant to the Global Offering, the 2008 Exchangeable Note, the Capitalisation Issue, the Over-allotment Option and the transactions contemplated respectively thereunder, it will and, will procure that none of its associates will, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Underwriters), at any time from the date of the letter agreement until the expiry of six months from the Listing Date:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer

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## UNDERWRITING

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or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein), owned or to be owned directly or indirectly by CITIC Capital (including holding as a custodian) as disclosed in this prospectus or with respect to which CITIC Capital has beneficial interest;

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (a) or (b) or (c) above, whether any such transaction described in paragraph (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

### **International Placing**

In connection with the International Placing, it is expected that we will enter into the International Underwriting Agreement with, inter alia, the Sole Global Coordinator, the Sole Lead Manager, the Selling Shareholders and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to subscribe or buy or procure subscribers or purchasers for the International Placing Shares being offered pursuant to the International Placing.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable at the sole discretion of the Sole Global Coordinator (on behalf of the International Underwriters) in whole or in part at one or more times, from the date of the International Underwriting Agreement until the 30th day after the last day for lodging applications under the Hong Kong Public Offer, to require our Company to allot up to an aggregate of 52,500,000 additional International Placing Shares representing 15% of the initial Offer Shares, at the same price per Share under the International Placing to cover, among other things, over-allocations (if any) in the International Placing.

### **Commission and expenses**

The Underwriters will receive a commission of 2.8% of the aggregate Offer Price of the Offer Shares (including Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commission.

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## UNDERWRITING

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Assuming an Offer Price of HK\$2.49 per Offer Share (being the mid-point of the stated Offer Price range), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$48.5 million in total (assuming the Over-allotment Option is not exercised). Such commissions, fees and expenses are payable by our Company. The Selling Shareholders will be responsible (severally in proportion to their respective number of Shares they sell) for all the transaction levies, commissions or brokerage charges and stamp duty, if any, payable in respect of the sale of their Shares. Our Company will be responsible for all other costs of the Global Offering.

### Indemnity

Each of our Company, certain Directors and our Controlling Shareholders (the “**Warrantors**”) has agreed to jointly and severally indemnify among others, the Sole Global Coordinator and Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Warrantors of the Hong Kong Underwriting Agreement. Each of the Warrantors has agreed to jointly and severally indemnify among others, the Sole Global Coordinator and the International Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the International Underwriting Agreement and any breach by the Warrantors under the International Underwriting Agreement.

### Activities by Syndicate members

Set out below is a variety of activities that the Underwriters of the Hong Kong Public Offer and the International Placing, together referred to as “**Syndicate Members**”, may each individually undertake, and which do not form part of the underwriting or the stabilising process. It should be noted that when engaging in any these activities the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.



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## UNDERWRITING

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The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares and entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described in the sub-sections headed “Structure of the Global Offering — Stabilisation Action” and “Structure of the Global Offering — International Placing — Over-allotment Option” in this section of the prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares and their share price, and the extent to which this occurs from day to day cannot be estimated.

### **Underwriters’ interests in our Company**

Save for their obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in our Company nor any interest in the Global Offering.

### **Sole Sponsor’s Independence**

CMB International satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer which forms part of the Global Offering. CMB International is the Sole Global Coordinator and Sole Bookrunner of the Global Offering.

The Global Offering initially consists of (subject to the Over-allotment Option):

- (i) the Hong Kong Public Offer of 35,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the sub-section headed “Hong Kong Public Offer” in this section of the prospectus; and
- (ii) the International Placing of 315,000,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to and to cease on or around, the last day for lodging applications under the Hong Kong Public Offer.

The number of Offer Shares to be offered under Hong Kong Public Offer and International Placing respectively may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as set out in the sub-section headed “International Placing — Over-allotment Option” in this section of the prospectus.

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company and, among

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## STRUCTURE OF THE GLOBAL OFFERING

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others, the Selling Shareholders expect to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise of the Over-allotment Option, and any options which may be granted under the Share Option Scheme;
- (ii) the Offer Price having been fixed on or around the Price Determination Date and the Price Determination Agreement having been executed by the Company (for itself and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or about the Price Determination Date and such agreement not subsequently having been terminated in accordance with its terms or otherwise;
- (iii) the execution and delivery of the International Underwriting Agreement in accordance with its terms on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with their respective terms,

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Monday, 24 January 2011 and in any event, not later than Wednesday, 26 January 2011.

**If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) by Wednesday, 26 January 2011, the Global Offering will not proceed and will lapse.**

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**Share certificates for the Offer Shares are expected to be issued on Thursday, 27 January 2011 but will only become valid certificates of title at 8:00 a.m. on Friday, 28 January 2011 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for Termination” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.**

### HONG KONG PUBLIC OFFER

#### Number of Shares initially offered

Our Company is initially offering 35,000,000 new Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between the International Placing and the Hong Kong Public Offer as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 3.5% of our Company’s issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Completion of the Hong Kong Public Offer is subject to the conditions as set out in the sub-section headed “Conditions of the Global Offering” in this section of the prospectus.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for

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## STRUCTURE OF THE GLOBAL OFFERING

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by applicants. Allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offer (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offer and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable). You should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). You can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 17,500,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares) are liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offer, then Offer Shares will be reallocated to the Hong Kong Public Offer from the International Placing so that the total number of Offer Shares available under the Hong Kong Public Offer will be increased to 105,000,000 Offer Shares (in the case of (i)), 140,000,000 Offer Shares (in the case of (ii)) and 175,000,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option) in each case, the additional Offer Shares reallocated to the Hong Kong Public Offer will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the

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## STRUCTURE OF THE GLOBAL OFFERING

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Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate such number of International Placing Shares as it deems appropriate from the International Placing to the Hong Kong Public Offer to satisfy in whole or in part the excess demand in the Hong Kong Public Offer.

If the Hong Kong Offer Shares are not fully subscribed for, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportion as the Sole Global Coordinator deems appropriate.

### **Applications**

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Shares under Hong Kong Public Offer.

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum price of HK\$2.98 per Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the sub-section headed "Price Determination of the Global Offering" in this section of the prospectus is less than the maximum price of HK\$2.98 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offer.

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## STRUCTURE OF THE GLOBAL OFFERING

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### INTERNATIONAL PLACING

#### Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription or sale under the International Placing will be 315,000,000 Shares (comprising 215,000,000 New Shares and 100,000,000 Sale Shares ), representing approximately 90% of the total number of the Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option). Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of International Placing Shares will represent approximately 31.5% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

The International Placing is subject to the same conditions as stated in the sub-section headed “Conditions of the Global Offering” in this section of the prospectus.

#### Allocation

The International Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process described in the sub-section headed “Price Determination of the Global Offering” in this section of the prospectus and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

#### Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Sole Global Coordinator (on behalf of International Underwriters) that exercisable at the sole discretion of the Sole Global Coordinator (on behalf of the International Underwriters).

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## STRUCTURE OF THE GLOBAL OFFERING

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Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offer, to require our Company to issue up to 52,500,000 Offer Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Placing to cover, among other things, over-allocation in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 5.0% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) and in accordance with the Listing Rules.

### PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Monday, 24 January 2011, and in any event on or before Wednesday, 26 January 2011, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders).

The Offer Price will be not more than HK\$2.98 per Share and is expected to be not less than HK\$1.99 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.chinabaofeng.com](http://www.chinabaofeng.com) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Upon issue of such a notice, the number of Offer Shares offered in the Global offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), will



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## STRUCTURE OF THE GLOBAL OFFERING

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be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company (for ourselves and on behalf of the Selling Shareholders) with the Sole Global Coordinator (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the indications of interest in the Global offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offer, are expected to be announced on Thursday, 27 January, 2011 in the manner set out in the sub-section “How to Apply for Hong Kong Offer Shares — Results of allocation” in this prospectus.

### STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the initial public offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the initial public offer price.

CMBIS has been appointed by us as the stabilising manager (“**Stabilising Manager**”) for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made pursuant to the SFO. In connection with the Global Offering, the Stabilising Manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on Sunday, 20 February 2011, being the 30th day after the last day for lodging applications under the Hong Kong Public Offer. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the

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## STRUCTURE OF THE GLOBAL OFFERING

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last day for lodging applications under the Hong Kong Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued by our Company under the Over-allotment Option, namely 52,500,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilising Manager, its affiliates or any person acting for it, may take all or any of the following stabilising action in Hong Kong during the stabilising period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (ii) in connection with any action described in paragraph (i) above;
  - (a) (1) over-allocation; or
    - (2) selling or agreeing to sell the Shares so as to establish a short position in them,  
  
for the purpose of preventing or minimising any reduction in the market price of our Shares;
  - (b) exercise the Over-allotment Option and purchase or subscribe for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) above;
  - (c) sell or agree to sell any Shares acquired by it in the course of the stabilising action in order to liquidate any position that has been established by such actions; and
  - (d) offer or attempt to do anything described in (a)(2), (b) or (c) above.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;

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## STRUCTURE OF THE GLOBAL OFFERING

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- Stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Sunday, 20 February 2011, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 52,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Sole Lead Manager may borrow up to 52,500,000 Shares from Best Mark, equivalent to the maximum number of Shares to be issued by our Company on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Listing Rules.

### DEALING

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 28 January 2011 it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, 28 January 2011.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### I. METHODS OF APPLICATION

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by (i) using a **WHITE** or **YELLOW** Application Form; (ii) submitting applications online through the designated website ([www.hkeipo.hk](http://www.hkeipo.hk)) of the **HK eIPO White Form** Service Provider, referred herein as the “**HK eIPO White Form** service”; or (iii) giving **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application by any of the above methods.

### II. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You, the applicant(s) and any person(s) for whose benefit you are applying must be 18 years of age or older and must have a Hong Kong address.

You cannot apply for any Hong Kong Offer Shares if you are or any person(s) for whose account or benefit you are applying is/are:

- a legal or natural person of the PRC except qualified domestic institutional investors (other than Hong Kong, Macau and Taiwan);
- a U.S. person, not outside the United States, or will not be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); or
- a person who does not have a Hong Kong address.

If you wish to apply for Hong Kong Offer Shares online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) under the HK eIPO White Form service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form service if you are an individual applicant. Corporations or joint applicants may not apply by means of HK eIPO White Form Service.**

If you are a firm, the application must be in the name(s) of the individual member(s), not the firm's name. If you are a body corporate, the Application Form must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application is made through a duly authorised attorney, our Company and the Sole Global Coordinator (or its respective agents or nominees) may accept it at their absolute discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

The number of joint applicants may not exceed four.

Our Company and the Sole Global Coordinator (or their respective agents and nominees) as our Company's agent(s), have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

Save under the circumstances permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are or any person(s) for whose benefit you are applying is/are:

- an existing beneficial owner of the Shares or of the shares in any of our subsidiaries;
- the chief executive or a Director of our Company or the chief executive or a director of any of our subsidiaries;
- a Connected Person of our Company or will become a Connected Person of our Company immediately upon completion of the Global offering; or
- an associate of any of the above.

You should also note that you will not receive any allotment of Hong Kong Offer Shares if you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

### III. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

#### 1. Which application method to use

- (a) Use a **WHITE** Application Form if you want the allotted Hong Kong Offer Shares to be issued in your name.
- (b) Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **HK eIPO White Form** service by submitting an application online through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). Use the **HK eIPO White Form** service if you want the allotted Hong Kong Offer Shares to be issued in your name.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (c) Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.
- (d) Instead of using a **YELLOW** Application Form, you may give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participants stock account or your designated CCASS Participant stock account.

### 2. Where to collect the Application Forms

- (a) You can collect a **WHITE** Application Form and a prospectus, during normal business hours from 9:00 a.m. on Tuesday, 18 January 2011 until 12:00 noon on Friday, 21 January 2011, from:

any of the following addresses of the Hong Kong Underwriters:

#### **CMB International Securities Limited**

Units 1803-4, 18/F  
Bank of America Tower  
12 Harcourt Road  
Hong Kong

#### **OSK Securities Hong Kong Limited**

12/F  
World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong

#### **Daewoo Securities (Hong Kong) Limited**

Suites 2005-2012  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

#### **Essence International Financial Holdings Limited**

39/F  
One Exchange Square  
Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### **Haitong International Securities Company Limited**

25/F  
New World Tower  
16-18 Queen's Road  
Central  
Hong Kong

### **VC Brokerage Limited**

28/F  
The Centrium  
60 Wyndham Street  
Central  
Hong Kong

### **Wing Lung Securities Limited**

9/F  
45 Des Voeux Road  
Central  
Hong Kong

or any of the following branches of Hang Seng Bank Limited:

<u>District</u>	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Head Office	83 Des Voeux Road Central
	Wanchai Branch	200 Hennessy Road
	Causeway Bay Branch	28 Yee Wo Street
Kowloon	Tsimshatsui Branch	18 Carnarvon Road
	Mongkok Branch	677 Nathan Road
	Yaumati Branch	363 Nathan Road
	Kowloon Main Branch	618 Nathan Road
	Hung Hom Branch	21 Ma Tau Wai Road
New Territories	Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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or any of the following branches of Wing Lung Bank Limited:

District	Branch	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
Kowloon	Mongkok Branch	B/F Bank Centre, 636 Nathan Road
	Lamtin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road
	Sham Shui Po Branch	111 Tai Po Road
	To Kwa Wan Branch	64 To Kwa Wan Road
New Territories	Shatin Plaza Branch	21 Shatin Centre Street
	Tsuen Wan Branch	251 Sha Tsui Road

(b) You can collect a **YELLOW** Application Form and a prospectus, during normal business hours from 9:00 a.m. on Tuesday, 18 January 2011 until 12:00 noon on Friday, 21 January 2011, from:

(1) the **Depository Counter of HKSCC** at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

### 3. How to complete the Application Form

There are detailed instructions on each Application Form.

It is important that you read the conditions and application procedures set out in the Application Form. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you or to the first-named applicant in the case of joint applicants, at your own risk at the address stated in the Application Form.

Decide how many Hong Kong Public Offer Shares you want to purchase. Calculate the amount you must pay in accordance with the table of numbers and payments set out in the Application Forms on the basis of the maximum Offer Price of HK\$2.98 per Hong Kong Public Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Complete the Application Form in block letters in English in ink, except as stated otherwise. You must sign the application in writing (and not by way of personal chop), otherwise the application is liable to be rejected. If you are a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity. If you are applying for the benefit of someone else, you, rather than that person, must sign on the Application Form. If it is a joint application, all applicants must sign on the Application Form. If your application is made through a duly authorised attorney, our Company and the Sole Global Coordinator (or their respective agents or nominees) as our Company's agent(s) may accept or reject the application at their absolute discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. Our Company and the Sole Global Coordinator in its capacity (as agent of our Company), or their respective agents and nominees, have full discretion to reject or accept any application, in full or in part, without assigning any reasons therefor.

Tear off your **WHITE** or **YELLOW** Application Form, fold the form once and lodge it in one of the special collection boxes provided at any of the branches of Hang Seng Bank Limited or Wing Lung Bank Limited set out in the sub-section headed "III. Applying by using a **WHITE** or **YELLOW** Application Form — 2. Where to collect the Application Forms" in this section of the prospectus at the times set out in the sub-section headed "III. Applying by using a **WHITE** or **YELLOW** Application Form — 5. Members of the Public — Time for applying for the Hong Kong Offer Shares" in this section of the prospectus.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s) must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (i) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

- (ii) If you are applying as an individual CCASS Investor Participant:

- (a) the Application Form must contain your name and Hong Kong identity card number; and
- (b) your participant I.D. must be inserted in the appropriate box in the Application Form.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(iii) If you are applying as joint individual CCASS Investor Participants:

- (a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card number of all the joint CCASS Investor Participants; and
- (b) your participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) If you are applying as a corporate CCASS Investor Participant:

- (a) the Application Form must contain your company name and Hong Kong Business Registration number; and
- (b) your participant I.D. and your company chop (bearing your company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render your application invalid.

The account number or identification code for each (joint) beneficial owner must also be inserted in the box marked "For nominees" in the Application Form.

If your application is made through a duly authorised attorney, our Company and the Sole Global Coordinator (or their respective agents and nominees) as our Company's agent(s), may accept it at their absolute discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

#### 4. How to make payment for the Application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either a separate cheque or a banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name. This name must either be pre-printed on the cheque, or be endorsed at the back by a person authorised by the bank. This account name must correspond with your name. If it is a joint application, the account name must be that of the first-named applicant;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- be made payable to “Hang Seng (Nominee) Limited — Baofengmodern Public Offer”;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker’s cashier order:

- you must purchase the banker’s cashier order, and have your name certified on the back by a person authorised by the bank. The name certified on the back of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of such banker’s cashier order must be the same as the name of the first-named applicant;
- the banker’s cashier order must be made payable to “Hang Seng (Nominee) Limited — Baofengmodern Public Offer”;
- the banker’s cashier order must be crossed “Account Payee Only”;
- the banker’s cashier order must be in Hong Kong dollars; and
- the banker’s cashier order must not be post-dated.

Your application will be rejected if your banker’s cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance(s) for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Friday, 21 January 2011. Our Company will not give you a receipt for your payment. Our Company shall keep all interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.

### 5. **Members of the public - Time for applying for the Hong Kong Offer Shares**

The latest time for lodging your application, together with payment attached, is 12:00 noon on Friday, 21 January 2011, or, if the application lists are not open on that day then by 12:00 noon on the next day the lists are open. The application lists will be open between 11:45 a.m. and 12:00 noon on that day, subject only to the weather conditions, details of which are set out in the sub-section headed “III. Applying by using a **WHITE** or **YELLOW** Application Form — 6. Effect of bad weather on the opening of the application lists” in this section of the prospectus.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Hang Seng Bank Limited or Wing Lung Bank Limited listed in the sub-section headed “III. Applying by using a **WHITE** or **YELLOW** Application Form — 2. Where to collect the Application Forms” in this section of the prospectus at the following times:

**Tuesday, 18 January 2011 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 19 January 2011 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 20 January 2011 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 21 January 2011 — 9:00 a.m. to 12:00 noon**

Subject to the terms and conditions set out in the Application Form and in the prospectus, no proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) from 9:00 a.m. on Tuesday, 18 January 2011 until 11:30 a.m. on Friday, 21 January 2011 or such later time as described under the sub-section headed “How to Apply for Hong Kong Offer Shares — III. Applying by using a **WHITE** or **YELLOW** Application Form — 6. Effect of bad weather conditions on the opening of the application lists” in this section of the prospectus (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 21 January 2011, the last application day, or, if the application lists are not open on that day, by the time and date stated in the sub-section headed “How to Apply for Hong Kong Offer Shares — III. Applying by using a **WHITE** or **YELLOW** Application Form — 6. Effect of bad weather on the opening of the application lists” in this section of the prospectus.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

### 6. Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 21 January 2011. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day (as defined below) which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 7. Results of Allocations

Our Company expects to release and announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications of the Hong Kong Public Offer, the results of applications under the Hong Kong Public Offer and the basis of allotment of the Hong Kong Offer Shares on Thursday, 27 January 2011 and expects to announce these results in the South China Morning Post (in English), Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.chinabaofeng.com](http://www.chinabaofeng.com). Results of allocations of the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong Business Registration Certificate numbers of successful applicants (where appropriate) will be made available through the various channels as described below:

- on the website of our Company at [www.chinabaofeng.com](http://www.chinabaofeng.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) from 9:00 a.m., Thursday, 27 January 2011 onward;
- on the Hong Kong Public Offer results of allocations website designated by our Company at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) on a 24-hour basis from 8:00 a.m. on Thursday, 27 January 2011 to 12:00 midnight on Wednesday, 2 February 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong Business Registration Certificate number provided in his/her/its Application Form to search for his/her/its own allocation result;
- from the Hong Kong Public Offer allocation results telephone enquiry line designated by our Company. Applicants may find out whether or not their applications have been successful and the number of the Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 27 January 2011 to Tuesday, 1 February 2011 (excluding Saturday, Sunday and Public Holiday); and
- from special allocation results booklets which set out the results of allocations and will be available for inspection during opening hours of the designated branches of the receiving bankers of the Hong Kong Public Offer from Thursday, 27 January 2011 to Monday, 31 January 2011.

### 8. Despatch/collection of share certificates, e-Auto Refund payment instructions and refund cheques

If you do not receive any Hong Kong Offer Shares for any of the reasons set out in the sub-section headed "VIII. Circumstances in which you will not be allotted Hong Kong Offer Shares" in the Application Form and in the prospectus, our Company will refund to you your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$2.98 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to the surplus application monies, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

Our Company will not issue temporary documents of title. Our Company will not give you a receipt for your payment. Subject to personal collection as mentioned below, in due course there will be sent to you, or in the case of joint applicants, to the first-named applicant, by ordinary post, at your own risk, to the address specified on your Application Form:

- (a) for applications on **WHITE** Application Forms or to the designated **HK eIPO White Form** Service Provider: share certificate(s) for such allotted Hong Kong Offer Shares successfully applied for. For applications on **YELLOW** Application Forms: share certificates for the Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below; and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant, or in the case of joint applicants, the first-named applicant, for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Subject to personal collection as mentioned below, refund cheque(s) for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms or to the designated **HK eIPO White Form** Service Provider; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or to the designated **HK eIPO White Form** Service Provider are expected to be posted on or around Thursday, 27 January 2011. The right is reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Share certificates will only become valid certificates of title provided that the Hong Kong Public Offer has become unconditional in all respects and not having been terminated in accordance with its terms, which is expected to be at 8:00 a.m. on Friday, 28 January 2011. The grounds for termination are described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for Termination” in this prospectus.

(a) *If you apply using a **WHITE** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated on your Application Form to collect your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person and have provided all information required by your Application Form, you may collect them in person from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on the date to be notified by our Company on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.chinabaofeng.com](http://www.chinabaofeng.com) as at the date of despatch/collection of share certificates. This is expected to be Thursday, 27 January 2011.

If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. You must produce evidence of identity (which must be acceptable to Tricor Investor Services Limited and must correspond with the information contained in this Application Form) to collect your share certificate(s). If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be despatched to you by ordinary post to the address on the Application Form at your own risk on Thursday, 27 January 2011.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, 27 January 2011 by ordinary post and at your own risk.

(b) *If you apply using a **YELLOW** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) personally, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) personally, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Thursday, 27 January 2011 by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, 27 January 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Thursday, 27 January 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 27 January 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

#### IV. APPLYING THROUGH HK eIPO WHITE FORM

##### 1. General

- (a) If you are an individual and satisfy the relevant eligibility criteria set out in the sub-section headed "II. Who can Apply for the Hong Kong Offer Shares" in this section of the prospectus and on the same website, you may apply through **HK eIPO White Form** by submitting an application to the **HK eIPO White Form Service Provider** through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you apply through HK eIPO White Form the Shares will be issued in your own name.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (b) Detailed instructions for application through the **HK eIPO White Form** service are set out in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the HK eIPO White Form Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the HK eIPO White Form Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the **HK eIPO White Form** Service Provider to transfer the details of your application to our Company and our registrars.
- (e) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).
- (f) You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, 21 January 2011 or such later time as described under in the sub-section headed “III. Applying by using a **WHITE** or **YELLOW** Application Form — 6. Effect of bad weather on the opening of the application lists” in this section of the prospectus, the HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website [www.hkeipo.hk](http://www.hkeipo.hk).
- (g) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated HK eIPO White Form Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.
- (h) for applicants applying through the **HK eIPO White Form** service by paying the application monies through a single bank account and applicant’s application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant’s application, e-Auto Refund payment instructions (if any) will be despatched to application payment bank account on or around Thursday, 27 January 2011; and/or

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (i) for applicants applying through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant's application, refund cheque(s) will be sent to the address specified in applicant's application instructions to the designated HK eIPO White Form Service Provider on or around Thursday, 27 January 2011, by ordinary post and at applicant's own risk.
- (j) Warning: The application for Hong Kong Offer Shares through **HK eIPO White Form** service is only a facility provided by the HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

**Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the HK eIPO White Form service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions.** In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS. Please see the sub-section headed "VII. How many applications you may make" in this section of the prospectus.

### 2. Additional Information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **HK eIPO White Form** service to the **HK eIPO White Form** service provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) will be treated as an applicant. If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** service provider, the designated **HK eIPO White Form** service provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** service provider on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). Otherwise, any monies payable to you due to a refund for any of the reasons is set out below in the sub-section headed "X. Refund of Application Monies" in this section of the prospectus.

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** service provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund

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cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road, East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 27 January 2011, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions. If you do not collect your share certificate(s) and/or refund cheque(s) (where applicable) personally within the time specified for collection, they will be despatched to you by ordinary post to the address as specified in your application instructions to the designated **HK eIPO White Form** service provider at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** service provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) on Thursday, 27 January 2011 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money under-paid or applications rejected by the designated **HK eIPO White Form** service provider set out below in the sub-section headed "IV. Applying through HK eIPO White Form — 2. Additional Information" in this section of the prospectus.

### V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

#### 1. General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
2/F, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our registrars.

### 2. Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
  - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
  - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
  - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
  - (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

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- understands that these declarations will be relied upon by us, the Sole Global Coordinator and the Hong Kong Underwriters in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in the Application Form and in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;
- agrees that we, our Directors, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Hong Kong Underwriters and any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for and that that person has only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus;
- agrees to disclose to us, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator and their respective advisers and agents and any personal data or information which they require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded because of an innocent misrepresentation or other than as provided;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person cannot be revoked on or before Thursday, 27 January 2011 when such agreement is to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of we agreeing that we will not offer any Hong Kong Offer Shares to any person before Thursday, 27 January 2011 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may

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revoke the application before Thursday, 27 January 2011 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees with us, for ourselves and for the benefit of each of the Shareholders (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum and Articles of Association of our Company;
- agrees with us (for ourselves and for the benefit of each of the Shareholders) that the Shares in our Company are freely transferable by the holders thereof;
- authorises our Company to enter into a contract on its behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Memorandum and Articles of Association of our Company; and
- agrees that the application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

### 3. Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

#### 4. Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

#### 5. Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

#### 6. Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

**Tuesday, 18 January 2011 — 9:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>  
**Wednesday, 19 January 2011 — 8:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>  
**Thursday, 20 January 2011 — 8:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>  
**Friday, 21 January 2011 — 8:00 a.m.**<sup>(Note 1)</sup> **to 12:00 noon**

*Note:*

1. *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 18 January 2011 until 12:00 noon on Friday, 21 January 2011 (24 hours daily, except the last application day).

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### 7. Effect of bad weather on the opening of the application lists

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 21 January 2011, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal.

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 21 January 2011, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12 noon on such day.

### 8. Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

### 9. Deposit of share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, 27 January 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong Business Registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the newspapers on Thursday, 27 January 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 27 January 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 27 January 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account (if any).
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 27 January 2011. No interest will be paid thereon.

### 10. Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

### 11. Personal data

The section of the Application Form entitled "Personal Data" applies to any personal data held by our Company and the Hong Kong Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 12. Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 21 January 2011.

### VI. EFFECT OF MAKING AN APPLICATION

- (a) By completing and submitting an Application Form, amongst other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- agree with our Company and each Shareholder, and our Company agrees with each of our Shareholders, to observe and comply with the Companies Ordinance, the Memorandum and Articles of Association of our Company;
  - agree with our Company and each Shareholder that the Shares are freely transferable by the holder thereof;
  - authorise our Company to enter into a contract on your behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders as stipulated in the Memorandum and Articles of Association of our Company;
  - confirm that you have received and/or read a copy of this prospectus, have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
  - agree that our Company, our Directors, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Hong Kong Underwriters and/or any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus;
  - undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest for or received or been placed or allocated (including conditionally and/or provisionally), and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree to disclose to our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Hong Kong Underwriters and/or their respective advisers and agents any personal data and information which they require about you or the person(s) for whose benefit you have made the application;
- instruct and authorise our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor and/or the Hong Kong Underwriters (or their respective agents or nominees) as agent for our Company execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association of our Company and otherwise to give effect to the arrangements described in this prospectus and the Application Form;
- represent, warrant and undertake that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form and you are not, and none of the other person(s) for whose benefit you are applying is, a U.S. person (as defined in Regulation S);
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation or other than as provided;
- warrant the truth and accuracy of the information contained in your application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application;
- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles and Association and otherwise to give effect to the arrangements described in the prospectus and the Application Form;
- (if the application is made for your own benefit) warrant that the application is only application which will be made for your benefit on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person and that this is the only application which will be made for the benefit of that other person, on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)), and that you are duly authorised to sign the Application Form as that other person's agent;
  - (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary powers and the authority to make the application;
  - authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our Company's agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or, in case of joint applicants, the first-named applicant on the Application Form by ordinary post at your own risk to the address stated in your Application Form (unless you have applied for 1,000,000 Hong Kong Public Offer Shares or more and have indicated on your Application Form that you wish to collect your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person), between 9:00 a.m. and 1:00 p.m. on Thursday, 27 January 2011 from Tricor Investor Services Limited;
  - understand that these declarations and representations will be relied upon by our Company and the Sole Global Coordinator in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application; and
  - if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor and/or the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and any supplement thereto.
- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you agree that:
- any Hong Kong Offer Shares to be allotted to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your instruction on the Application Form;

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- each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name, or if you are joint applicants, into the first-named applicant's name, at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be registered in your name (or, if you are joint applicants, to the first-named applicant's) and in such a case, to post the share certificate(s) for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
- each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

Our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Underwriters, any other parties involved in the Global Offering and their respective directors are entitled to rely on any warranty, representation or declaration made by you in the application. In the event of the application being made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given and assumed by and imposed on the applicants jointly and severally.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to our Company nor any other person in respect of such things:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instruct and authorise HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$2.98 per Hong Kong Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form;
- (in addition to the confirmations and agreements set out in paragraph (a) above) instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following:
  - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to our CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
  - undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
  - undertake and confirm that you have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
  - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
  - understand that the above declaration will be relied upon by our Company and the Sole Global Coordinator in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund monies in accordance with arrangements separately agreed between our Company and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- confirm that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;
- agree that our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for, and that you have only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus;
- agree (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bankers, the Sole Sponsor, the Sole Global Coordinator and the Underwriters and any of their respective officers, advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- agree that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that our Company will not offer any Hong Kong Offer Shares to any person before the said fifth day except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offer made available by our Company; and
- agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### VII. HOW MANY APPLICATIONS YOU MAY MAKE

**You may make more than one application for Hong Kong Offer Shares if and only if:**

You are a nominee, in which case you may make an application as a nominee by (1) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (2) using a **WHITE** or **YELLOW** Application Form and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include, for each beneficial owner (or, in the case of joint beneficial owners, for each such beneficial owner):

- an account number; or
- some other identification code

If you do not include this information, the application will be treated as being made for your benefit. As a nominee, you are deemed to have warranted that you are duly authorised to sign the Application Form on behalf of the relevant beneficial owner and agreed to disclose personal data relating to such beneficial owner on the terms set out in the Application Form on personal data.

**Otherwise, multiple applications or suspected multiple applications will be rejected.**

By completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)); or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person and that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider and that you are duly authorised to sign the Application Form as that other person’s agent.

Except where you are a nominee and you provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));



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- both apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)) for more than 17,500,000 Hong Kong Offer Shares, being 50% of the Shares initially being offered for public subscription under the Hong Kong Public Offer as more particularly described in the sub-section headed “Structure of the Global Offering — Hong Kong Public Offer” in this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Placing.

Save as referred to above, **all** of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

**Unlisted company** means a company with no equity securities listed on the Stock Exchange.

**Statutory control** in relation to a company means you:

- control the composition of the board of directors of the company;
- control more than one-half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Public Offer Shares,

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **HK eIPO White Form** by giving electronic application instructions through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) and completing payment in respect of such electronic application instructions, or of submitting one application through **HK eIPO White Form** and one or more applications by any other means, all of your applications are liable to be rejected.

### VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You may not be allotted Hong Kong Offer Shares if:

- **Your application is revoked or withdrawn:**

By completing and submitting an Application Form or submitting electronic application instructions to HKSCC or the designated **HK eIPO White Form** Service Provider, you agree that you cannot revoke your application or the application made by HKSCC Nominees or the **HK eIPO White Form** Service Provider on your behalf, as the case may be, on or before Thursday, 27 January 2011. The agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application instruction to HKSCC or the **HK eIPO White Form** Service Provider and an application has been made by HKSCC Nominees on your behalf accordingly. The collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before Thursday, 27 January 2011, except by means of one of the procedures referred to in this prospectus.

You may only revoke your application on or before Thursday, 27 January 2011 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted shall remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees or the **HK eIPO White Form** Service Provider on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **Our Company or the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor or its agents rejects your application**

Our Company and the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor or their respective agents and nominees, as our Company's agent(s), have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

- **The allotment of Hong Kong Offer Shares is void**

The allotment of Hong Kong Offer Shares to you, or to HKSCC Nominees, if made, will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
  - within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.
- **Any of the following circumstances apply:**
    - you make multiple applications or suspected multiple applications;
    - you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or Offer Shares under the International Placing. By filling in any of the Application Forms or applying by giving electronic application instructions to HKSCC, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject

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applications in the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;

- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your electronic application instructions to HKSCC via CCASS or through **HK eIPO White Form** service are not completed in accordance with the terms and conditions set out in the designated website at [www.hkeipo.hk](http://www.hkeipo.hk);
- our Company, the Sole Global Coordinator, the Sole Bookrunner and the Sole Sponsor believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;
- you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offer for subscription;
- the Underwriting Agreements do not become unconditional; or
- either of the Underwriting Agreements is terminated in accordance with its respective terms.

If any of these situations apply, your application will be rejected by the receiving bankers and the attached cheque(s) and/or banker's cashier order will not be presented for clearance.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

### IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK\$2.98 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 2,000 Offer Shares you will pay approximately HK\$6,020.08. The Application Forms have tables showing the exact amount payable for certain multiples of Offer Shares up to 17,500,000 Offer Shares.

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You must pay for the Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

### **X. REFUND OF APPLICATION MONIES**

If you do not receive any Hong Kong Offer Shares for any of the reasons set out in the sub-section headed "VIII. Circumstances in which you will not be allotted Hong Kong Offer Shares" in the Application Forms and in this prospectus, we will refund to you your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$2.98 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, 27 January 2011 in accordance with the various arrangements as described above.

Refund cheques will be crossed "Account Payee Only", and made out to you or, if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you will be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### XI. PERSONAL DATA

By signing an Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree to all of the following:

#### Personal Information Collection Statement

The main provisions of the Personal Data (Privacy) Ordinance (the “**Personal Data Ordinance**”) came into effect in Hong Kong on 20 December 1996. The Personal Information Collection Statement informs the applicant for and holder of Hong Kong Offer Shares of the policies and practices of our Company and the Hong Kong Share Registrar in relation to personal data and the Personal Data Ordinance.

#### 1. Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar. Failure to supply the requested data may result in your application for securities being rejected, delayed or the inability of the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s) and/or refund cheque(s) to which you are entitled. It is important that holders of securities inform our Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

#### 2. Purposes

The personal data of the applicants and holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the Application Form and this prospectus and announcing the results of allocation of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong or elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable in the name of HKSCC Nominees;
- maintaining or updating the register of holders of securities of our Company;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- conducting or assisting the conduct of signature verifications, any other verification or exchange of information;
- establishing benefit entitlements, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of an announcement or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

### 3. Transfer of personal data

Personal data held by our Company and the Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Hong Kong Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our appointed agents such as financial advisers and receiving bankers and overseas principal Share Register;
- where applicants for securities request deposit into CCASS, to HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating the CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company or our subsidiaries or the Hong Kong Share Registrar in connection with the operation of their respective businesses;
- the Stock Exchange, the SFC and any other regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. Access and correction of personal data

The Personal Data Ordinance provides the applicant and the holder of securities with rights to ascertain whether our Company and/or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Personal Data Ordinance, our Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to our Company for the attention of our Company Secretary or (as the case may be) the Hong Kong Share Registrar for the attention of the privacy compliance officer.

## XII. DEALINGS AND SETTLEMENT

### 1. Commencement of dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 28 January 2011.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares is 1121.

### 2. Offer Shares will be eligible for admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

18 January 2011

The Directors  
Baofeng Modern International Holdings Company Limited  
CMB International Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Baofeng Modern International Holdings Company Limited (formerly known as “BAOF International Limited” (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the “Relevant Periods”) and the comparative financial information of the Group for the nine months ended 30 September 2009 (the “Comparative Financial Information”), prepared on the bases of presentation and preparation set forth in note 2 of Section 2 below, for inclusion in the prospectus of the Company dated 18 January 2011 (the “Prospectus”) in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 March 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation (the “Reorganisation”) as more fully explained in the section “History, Reorganisation and Group Structure” in the Prospectus and in Appendix VI “Statutory and General Information” to the Prospectus, which was completed on 25 March 2008, the Company became the holding company of the companies now comprising the Group.

The Group is principally engaged in the manufacture and sale of slippers. The Company and its subsidiaries have adopted 31 December as their financial year end date. The particulars of the Company and its subsidiaries are set out in note 1 of Section 2 below.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods, the consolidated statements of financial position of the Group as at 31 December 2007, 2008, 2009 and 30 September 2010, and the statements of financial position of the Company as at 31 December 2008 and 2009 and 30 September 2010, together

with the notes thereto set out in this report (the "Financial Information") have been prepared based on the audited financial statements and, where appropriate, management accounts of the companies now comprising the Group, and have been prepared on the bases set out in note 2 of Section 2 below.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information and the Comparative Financial Information in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, the Comparative Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion and a review conclusion, based on our audit and review, on the Financial Information and the Comparative Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

#### **Procedures performed in respect of the Financial Information**

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 Financial Information.

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

**Procedures performed in respect of the Comparative Financial Information**

For the purpose of this report, we have also performed a review of the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA's and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

**Opinion in respect of the Financial Information for the Relevant Periods**

In our opinion, the Financial Information for the Relevant Periods prepared on the bases of presentation and preparation set out in note 2 of Section 2 below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008, 2009 and 30 September 2010 and of the Company as at 31 December 2008 and 2009 and 30 September 2010, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

**Review conclusion in respect of the Comparative Financial Information**

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Comparative Financial Information does not give a true and fair view of the consolidated results and cash flows of the Group for the nine months ended 30 September 2009.

## 1. FINANCIAL INFORMATION

## Consolidated income statements

	Notes	Year ended 31 December			Nine months ended 30 September	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	7	429,296	499,264	588,552	426,063	634,307
Cost of sales		<u>(324,711)</u>	<u>(368,694)</u>	<u>(423,179)</u>	<u>(313,236)</u>	<u>(419,551)</u>
Gross profit		104,585	130,570	165,373	112,827	214,756
Other income and gains, net	7	1,954	8,329	3,044	1,707	770
Selling and distribution costs		(11,386)	(14,214)	(26,927)	(21,307)	(48,965)
General and administrative expenses		(12,997)	(17,099)	(22,464)	(17,308)	(20,011)
Other operating expenses		<u>(869)</u>	<u>(2)</u>	<u>(239)</u>	<u>(175)</u>	<u>(8,725)</u>
Profit from operations		81,287	107,584	118,787	75,744	137,825
Finance costs, net	8	<u>(2,394)</u>	<u>(22,759)</u>	<u>(14,493)</u>	<u>(10,276)</u>	<u>9,742</u>
PROFIT BEFORE TAX	9	78,893	84,825	104,294	65,468	147,567
Income tax expense	12	<u>(9,964)</u>	<u>(26,641)</u>	<u>(34,189)</u>	<u>(20,275)</u>	<u>(43,030)</u>
PROFIT FOR THE YEAR/PERIOD	13	<u>68,929</u>	<u>58,184</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>

Details of the dividends paid and payable are disclosed in note 14 to the Financial Information.

## Consolidated statements of comprehensive income

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
PROFIT FOR THE YEAR/PERIOD	<u>68,929</u>	<u>58,184</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	—	155	—	—	—
Income tax relating to component of other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD, NET OF TAX	<u>—</u>	<u>155</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>68,929</u>	<u>58,339</u>	<u>70,105</u>	<u>45,193</u>	<u>104,537</u>

## Consolidated statements of financial position

	Notes	31 December			30 September
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	16	40,604	53,356	49,874	47,415
Prepaid land lease payments	17	2,876	5,556	5,718	30,167
Deposits paid	18	—	28,909	28,260	—
Prepaid rent	19	—	—	3,718	1,859
Total non-current assets		<u>43,480</u>	<u>87,821</u>	<u>87,570</u>	<u>79,441</u>
<b>CURRENT ASSETS</b>					
Inventories	21	43,291	36,588	55,623	40,086
Trade receivables	22, 27	56,626	82,566	97,241	70,587
Prepayments, deposits and other receivables	23	2,610	1,965	4,557	9,561
Value added tax recoverable		6,029	3,891	6,837	2,116
Cash and bank balances	24	<u>57,534</u>	<u>135,163</u>	<u>178,504</u>	<u>303,137</u>
Total current assets		<u>166,090</u>	<u>260,173</u>	<u>342,762</u>	<u>425,487</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	25	12,264	65,276	45,227	33,420
Deposits received, other payables and accruals	26	11,399	17,729	11,894	23,525
Interest-bearing bank borrowings	27	59,329	31,400	54,500	24,704
Exchangeable note	28	—	71,899	80,348	54,679
Derivative component of exchangeable note	28	—	—	—	—
Amount due to a director	29	—	—	679	5,137
Amount due to a related company	29	—	—	170	—
Dividend payable	14	—	—	—	60,900
Tax payable		<u>1,938</u>	<u>8,193</u>	<u>10,412</u>	<u>18,703</u>
Total current liabilities		<u>84,930</u>	<u>194,497</u>	<u>203,230</u>	<u>221,068</u>
<b>NET CURRENT ASSETS</b>		<u>81,160</u>	<u>65,676</u>	<u>139,532</u>	<u>204,419</u>

**APPENDIX I****ACCOUNTANTS' REPORT**

	<b>Notes</b>	<b>31 December</b>			<b>30 September</b>
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		124,640	153,497	227,102	283,860
NON-CURRENT LIABILITIES					
Deferred tax liabilities	30	—	—	3,500	—
Net assets		<u>124,640</u>	<u>153,497</u>	<u>223,602</u>	<u>283,860</u>
EQUITY					
<b>Equity attributable to owners of the Company</b>					
Issued capital	31	50,000	7	7	7
Reserves	32(a)	<u>74,640</u>	<u>153,490</u>	<u>223,595</u>	<u>283,853</u>
Total equity		<u>124,640</u>	<u>153,497</u>	<u>223,602</u>	<u>283,860</u>

## Consolidated statements of changes in equity

	Attributable to owners of the Company							
	Issued capital	Share premium	Contributed surplus	Statutory surplus fund	Exchange fluctuation reserve	Retained profits	Total reserves	Total equity
	RMB'000	RMB'000	RMB'000 (note 32(a)(i))	RMB'000 (note 32(a)(ii))	RMB'000 (note 32(a)(iii))	RMB'000	RMB'000	RMB'000
At 1 January 2007	25,000	—	—	9,605	—	46,096	55,701	80,701
Total comprehensive income for the year	—	—	—	—	—	68,929	68,929	68,929
Capital injection	25,010	—	—	—	—	—	—	25,010
Reclassification of exchange difference from issued capital to retained profits	(10)	—	—	—	—	10	10	—
Dividend paid during the year (note 14)	—	—	—	—	—	(50,000)	(50,000)	(50,000)
Transfer to statutory surplus fund	—	—	—	6,893	—	(6,893)	—	—
At 31 December 2007 and 1 January 2008	50,000	—	—	16,498	—	58,142	74,640	124,640
Total comprehensive income for the year	—	—	—	—	155	58,184	58,339	58,339
Issue of shares	7	—	—	—	—	—	—	7
Acquisition of a subsidiary pursuant to the Reorganisation	(50,000)	—	49,993	—	—	—	49,993	(7)
Issue of exchangeable note (note 28)	—	—	13,518	—	—	—	13,518	13,518
Dividend paid during the year (note 14)	—	—	—	—	—	(43,000)	(43,000)	(43,000)
Transfer to statutory surplus fund	—	—	—	8,121	—	(8,121)	—	—
At 31 December 2008 and 1 January 2009	7	—	63,511	24,619	155	65,205	153,490	153,497
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
Total comprehensive income for the period	—	—	—	—	—	104,537	104,537	104,537
Issue of shares (note 31(b)(iii))	—	8,707	—	—	—	—	8,707	8,707
Interim dividend (note 14)	—	—	—	—	—	(60,900)	(60,900)	(60,900)
Restructuring of exchangeable note (note 28)	—	—	7,914	—	—	—	7,914	7,914
At 30 September 2010	<u>7</u>	<u>8,707</u>	<u>71,425</u>	<u>33,606</u>	<u>155</u>	<u>169,960</u>	<u>283,853</u>	<u>283,860</u>
At 1 January 2009	7	—	63,511	24,619	155	65,205	153,490	153,497
Total comprehensive income for the period (unaudited)	—	—	—	—	—	45,193	45,193	45,193
At 30 September 2009 (unaudited)	<u>7</u>	<u>—</u>	<u>63,511</u>	<u>24,619</u>	<u>155</u>	<u>110,398</u>	<u>198,683</u>	<u>198,690</u>



## Consolidated statements of cash flows

	Notes	Year ended 31 December			Nine months ended 30 September	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit before tax		78,893	84,825	104,294	65,468	147,567
Adjustments for:						
Interest income	7	(303)	(536)	(480)	(320)	(652)
Interest expenses	8	2,394	22,759	14,493	10,276	10,600
Depreciation	9	3,977	4,918	6,362	4,735	4,208
Amortisation of prepaid land lease payments	9	68	68	127	93	99
Amortisation of prepaid rent	9	—	—	2,479	1,239	3,718
Loss on disposal of items of property, plant and equipment	9	7	1	11	—	4
Reversal of provision for impairment of trade receivables	9	—	(3,787)	—	—	—
Waiver of maturity yield payment of the exchangeable note	8	—	—	—	—	(20,342)
		85,036	108,248	127,286	81,491	145,202
Increase in prepaid rent		—	—	(8,676)	(8,676)	(2,479)
Decrease/(increase) in inventories		(12,141)	6,703	(19,035)	8,341	15,537
Decrease/(increase) in trade receivables		7,621	(22,153)	(14,675)	34,544	26,654

	Notes	Year ended 31 December			Nine months ended 30 September	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Decrease/(increase) in prepayments, deposits and other receivables		(1,510)	645	(62)	(7,616)	(3,850)
Decrease/(increase) in value added tax recoverable		(893)	2,138	(2,946)	835	4,721
Increase/(decrease) in trade payables		972	53,012	(20,049)	(53,416)	(11,807)
Increase/(decrease) in deposits received, other payables and accruals	33(b)	(5,242)	3,582	(3,087)	(8,378)	11,631
Increase in amount due to a director	33(c)	—	—	679	—	13,165
Increase/(decrease) in amount due to a related company		—	—	170	170	(170)
Cash generated from operations		73,843	152,175	59,605	47,295	198,604
Interest received		303	536	480	320	652
PRC taxes paid		(10,297)	(20,386)	(28,470)	(25,531)	(38,239)
Net cash flows from operating activities		63,849	132,325	31,615	22,084	161,017

	Notes	Year ended 31 December			Nine months ended 30 September	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of items of property, plant and equipment		(5,270)	(18,047)	(2,917)	(2,666)	(1,753)
Addition to prepaid land lease payments	17, 33(b)	—	—	(3,088)	(2,748)	(25,082)
Proceeds from disposal of items of property, plant and equipment		2,129	376	675	624	—
Decrease/(increase) in deposits paid		—	(28,909)	—	(150)	28,260
Net cash flows from/(used in) investing activities		<u>(3,141)</u>	<u>(46,580)</u>	<u>(5,330)</u>	<u>(4,940)</u>	<u>1,425</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
New bank loans		85,393	70,720	119,500	84,500	54,354
Interest paid		(2,302)	(3,056)	(6,044)	(5,303)	(8,013)
Repayment of bank loans		(85,149)	(98,649)	(96,400)	(66,400)	(84,150)
Proceeds from issue of exchangeable note	28	—	67,915	—	—	—
Transaction costs of issuing exchangeable note	28	—	(2,201)	—	—	—
Capital contribution from a then shareholder		25,010	—	—	—	—
Dividends paid		<u>(54,000)</u>	<u>(43,000)</u>	—	—	—
Net cash flows from/(used in) financing activities		<u>(31,048)</u>	<u>(8,271)</u>	<u>17,056</u>	<u>12,797</u>	<u>(37,809)</u>



## Statements of financial position

*Company*

	Notes	31 December		30 September
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSET				
Interests in a subsidiary	20	<u>369,358</u>	<u>364,547</u>	<u>361,728</u>
CURRENT ASSETS				
Prepayment	23	—	—	2,449
Dividend receivable from a subsidiary	20	<u>—</u>	<u>—</u>	<u>91,350</u>
Total current assets		<u>—</u>	<u>—</u>	<u>93,799</u>
CURRENT LIABILITIES				
Other payables and accruals	26	—	1,358	5,860
Exchangeable note	28	71,899	80,348	54,679
Derivative component of exchangeable note	28	—	—	—
Dividend payable	14	<u>—</u>	<u>—</u>	<u>60,900</u>
Total current liabilities		<u>71,899</u>	<u>81,706</u>	<u>121,439</u>
NET CURRENT LIABILITIES		<u>(71,899)</u>	<u>(81,706)</u>	<u>(27,640)</u>
Net assets		<u>297,459</u>	<u>282,841</u>	<u>334,088</u>
EQUITY				
Issued capital	31	7	7	7
Reserves	32(b)	<u>297,452</u>	<u>282,834</u>	<u>334,081</u>
Total equity		<u>297,459</u>	<u>282,841</u>	<u>334,088</u>

## 2. NOTES TO FINANCIAL INFORMATION

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

The Company and its subsidiaries (collectively the "Group") were principally engaged in the manufacturing and sale of slippers during the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the "Relevant Periods").

In the opinion of the directors of the Company, the ultimate holding company of the Company is Best Mark International Limited, which is incorporated in the British Virgin Islands and is wholly-owned by Mr. Sze Ching Bor.

The Company became the holding company of the companies now comprising the Group as a result of the group reorganisation (the "Reorganisation") as described in the section "History, Reorganisation and Group Structure" in the prospectus of the Company (the "Prospectus") and in Appendix VI "Statutory and General Information" to the Prospectus, which was completed on 25 March 2008.

As at the date of the report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or if incorporated outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong). The particulars of the subsidiaries are set out below:

Company name	Place and date of incorporation/ establishment and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BAOF International Limited ("BAOF HK") <sup>*(1)</sup>	Hong Kong 7 January 2008	HK\$10,000	100	—	Investment holding
Quanzhou Baofeng Shoes Co., Ltd 泉州寶峰鞋業有限公司 ("Quanzhou Baofeng") <sup>** (2)</sup>	PRC/Mainland China 14 July 1999	RMB87,400,000	—	100	Manufacture and sale of slippers

*Notes:*

- \* Incorporated as a limited liability company under the Hong Kong Companies Ordinance.
  - \*\* Registered as a wholly-foreign-owned enterprise under the law of the PRC.
- (1) The statutory financial statements of BAOF HK for the period ended 31 December 2008 and the year ended 31 December 2009 were audited by Ernst & Young.
  - (2) The statutory financial statements of Quanzhou Baofeng for the years ended 31 December 2007, 2008 and 2009 were audited by Quanzhou Gongzheng Certified Public Accountants Ltd. (泉州公正有限責任會計師事務所). The financial statements of Quanzhou Baofeng prepared under International Financial Reporting Standards for the year ended 31 December 2007 were audited by Grant Thornton.

**2. BASES OF PRESENTATION AND PREPARATION**

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 25 March 2008. Since the Company and the subsidiaries were and are ultimately controlled by Mr. Sze Ching Bor both before and after the completion of the Reorganisation, the Reorganisation is considered as a business combination under common control and the financial information of the Group for the Relevant Periods (the "Financial Information") has been prepared using the principles of merger accounting.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of the Group throughout the Relevant Periods include the results and changes in equity and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 30 September 2010 have been prepared to present the state of affairs of the Group as if the current structure of the Group had been in existence as at those dates.

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). All IFRSs effective for the accounting periods commencing from 1 January 2007, 2008, 2009 and 2010, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for the derivative component of exchangeable note which is measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### 3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

Apart from the above, Improvements to IFRSs 2010 has been issued 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.

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 HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.



#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. As explained in note 2 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated income statements and the consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented, since the date when the combining entities or businesses first came under common control, or since the respective dates of incorporation/establishment of the combining entities or businesses, where this is a shorter period, regardless of the date of the common control combination.

All income, expenses, and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

##### **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 other than goodwill**

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.

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.

### **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, other than construction in progress, 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/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **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 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, held-to-maturity investments and available-for-sale financial assets, 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 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.

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.

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, 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.

### **Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

### **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 goodwill or 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, 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.

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.

### **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 grants**

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 schemes***

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

***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.

**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.

## **5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Group's Financial Information 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 each of the Relevant Periods. 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 Information:

***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 has recognised a financial liability in respect of the obligation to repay CITIC Capital (as defined in note 28) pursuant to the Agreement (as defined in note 28). 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 the equity component 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 considers 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 are provided.

***Estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period, are 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, and 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 each of the Relevant Periods.

***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 each of the Relevant Periods.

***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, based 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 12 to the Financial Information.

***Valuation of exchangeable note***

As described in note 28 to the Financial Information, the exchangeable note includes an embedded derivative that is measured at fair value through profit or 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. The fair value of the embedded financial derivative as at the end of each of the Relevant Periods is set out in note 28 to the Financial Information.

**6. 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, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2007	OEM	Boree products	Baofeng products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	409,195	20,101	—	429,296
<b>Segment results</b>	87,113	6,086	—	93,199
<i>Reconciliation:</i>				
Interest income				303
Other unallocated income and gains				1,651
Corporate and other unallocated expenses				(13,866)
Finance costs, net				<u>(2,394)</u>
Profit before tax				<u>78,893</u>
<b>Segment assets</b>	66,441	4,096	—	70,537
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>139,033</u>
Total assets				<u>209,570</u>
<b>Segment liabilities</b>	—	—	—	—
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>84,930</u>
Total liabilities				<u>84,930</u>

Year ended 31 December 2008	OEM	Boree products	Baofeng products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	467,246	32,018	—	499,264
<b>Segment results</b>	117,938	8,802	—	126,740
<i>Reconciliation:</i>				
Interest income				536
Other unallocated income and gains				1,196
Corporate and other unallocated expenses				(20,888)
Finance costs, net				<u>(22,759)</u>
Profit before tax				<u>84,825</u>
<b>Segment assets</b>	95,892	6,718	—	102,610
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>245,384</u>
Total assets				<u>347,994</u>
<b>Segment liabilities</b>	4,036	—	—	4,036
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>190,461</u>
Total liabilities				<u>194,497</u>
<b>Other segment information:</b>				
Reversal of provision for impairment of trade receivables	3,787	—	—	<u>3,787</u>



Year ended 31 December 2009	OEM	Boree products	Baofeng products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	467,908	85,860	34,784	588,552
<b>Segment results</b>	108,662	20,744	9,176	138,582
<i>Reconciliation:</i>				
Interest income				480
Other unallocated income and gains				2,428
Corporate and other unallocated expenses				(22,703)
Finance costs, net				<u>(14,493)</u>
Profit before tax				<u>104,294</u>
<b>Segment assets</b>	106,930	19,876	10,012	136,818
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>293,514</u>
Total assets				<u>430,332</u>
<b>Segment liabilities</b>	110	700	750	1,560
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>205,170</u>
Total liabilities				<u>206,730</u>
<b>Period ended 30 September 2009 (unaudited)</b>	<b>OEM</b>	<b>Boree products</b>	<b>Baofeng products</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	333,316	64,739	28,008	426,063
<b>Segment results</b>	69,004	15,082	7,434	91,520
<i>Reconciliation:</i>				
Interest income				320
Other unallocated income and gains				1,387
Corporate and other unallocated expenses				(17,483)
Finance costs, net				<u>(10,276)</u>
Profit before tax				<u>65,468</u>

Period ended 30 September 2010	OEM	Boree products	Baofeng products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	396,639	170,049	67,619	634,307
<b>Segment results</b>	105,336	39,019	21,436	165,791
<i>Reconciliation:</i>				
Interest income				652
Other unallocated income and gains				118
Corporate and other unallocated expenses				(28,736)
Finance income, net				<u>9,742</u>
Profit before tax				<u>147,567</u>
<b>Segment assets</b>	49,165	35,538	13,108	97,811
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>407,117</u>
Total assets				<u>504,928</u>
<b>Segment liabilities</b>	—	1,200	1,150	2,350
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>218,718</u>
Total liabilities				<u>221,068</u>

## Geographical information

## (a) Revenue from external customers

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
PRC (principal place of operations)*	276,458	290,907	436,933	314,185	528,546
United States of America**	125,618	185,294	130,950	95,473	85,203
South East Asia**	8,840	7,725	5,374	4,775	5,555
Europe**	8,003	5,471	3,990	2,926	1,575
South America**	2,580	3,093	2,577	2,315	7,413
Other countries**	7,797	6,774	8,728	6,389	6,015
	<u>429,296</u>	<u>499,264</u>	<u>588,552</u>	<u>426,063</u>	<u>634,307</u>

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

\* Revenue was generated from OEM products, Boree products and Baofeng products.

\*\* Revenue was generated from OEM products.

## (b) Non-current assets

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC (principal place of operations)	<u>43,480</u>	<u>87,821</u>	<u>87,570</u>	<u>79,441</u>

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

## Information about major customers

For the year ended 31 December 2007, revenue from three of the Group's customers amounting to RMB103,455,000, RMB70,763,000 and RMB50,233,000 had individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2008, revenue from one of the Group's customers amounting to RMB86,605,000 had individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2009, revenue from two of the Group's customers amounting to RMB81,502,000 and

RMB59,335,000 had individually accounted for over 10% of the Group's total revenue. For the nine months ended 30 September 2009, revenue from one of the Group's customers amounting to RMB63,899,000 (unaudited) had individually accounted for over 10% of the Group's total revenue. For the nine months ended 30 September 2010, none of the customers of the Group had individually accounted for over 10% of the Group's total revenue.

## 7. REVENUE AND 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 and other income and gains, net is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<i>Revenue</i>					
Manufacture and sale of goods	<u>429,296</u>	<u>499,264</u>	<u>588,552</u>	<u>426,063</u>	<u>634,307</u>
<i>Other income and gains, net</i>					
Interest income	303	536	480	320	652
Rental income	132	272	255	191	158
Subsidy income *	1,542	971	2,081	1,798	409
Exchange gains/(losses), net	—	6,597	(28)	(570)	(422)
Others	<u>(23)</u>	<u>(47)</u>	<u>256</u>	<u>(32)</u>	<u>(27)</u>
	<u>1,954</u>	<u>8,329</u>	<u>3,044</u>	<u>1,707</u>	<u>770</u>

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

## 8. FINANCE COSTS, NET

## Group

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Interest on bank loans repayable within five years	(2,394)	(3,056)	(1,913)	(1,171)	(2,494)
Interest expenses on exchangeable note	—	(3,415)	(12,580)	(9,105)	(8,106)
Interest on exchangeable note accelerated upon default	—	(16,288)	—	—	—
Waiver of maturity yield payment of exchangeable note	—	—	—	—	<u>20,342</u>
	<u>(2,394)</u>	<u>(22,759)</u>	<u>(14,493)</u>	<u>(10,276)</u>	<u>9,742</u>

## 9. PROFIT BEFORE TAX

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

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	324,711	368,694	423,179	313,236	419,551
Depreciation *	3,977	4,918	6,362	4,735	4,208
Amortisation of prepaid land lease payments *	68	68	127	93	99
Minimum lease payments under operating leases in respect of land and buildings *	2,100	2,100	1,050	1,050	3,776
Amortisation of prepaid rent *	—	—	2,479	1,239	3,718
Employee benefit expenses * (including directors' remuneration (note 10)):					
Wages and salaries	55,601	63,697	65,871	46,861	56,165
Staff welfare	1,499	3,499	3,522	2,716	2,592
Pension scheme contributions **	2,133	4,303	3,368	2,577	2,724
	<u>59,233</u>	<u>71,499</u>	<u>72,761</u>	<u>52,154</u>	<u>61,481</u>
Auditors' remuneration	18	853	940	705	1,570
Loss on disposal of items of property, plant and equipment	7	1	11	—	4
Research and development costs ***	1,459	1,472	1,581	1,162	1,606
Reversal of provision for impairment of trade receivables	—	(3,787)	—	—	—

\* The cost of inventories sold for the years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 includes approximately RMB59,362,000, RMB69,787,000, RMB66,458,000 and RMB52,653,000 (nine months ended 30 September 2009: RMB45,901,000 (unaudited)) 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.

\*\* As at the end of each of the Relevant Periods, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

\*\*\* The research and development costs for the Relevant Periods are included in "General and administrative expenses" on the face of the consolidated income statements.

## 10. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	—	—	—	177
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	648	960	648	486	632
Pension scheme contributions	2	3	2	2	2
	<u>650</u>	<u>963</u>	<u>650</u>	<u>488</u>	<u>811</u>

## (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 22 May 2010. The remuneration received or receivable from the Group during the period ended 30 September 2010 is as follows:

## Independent non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Nine months ended 30 September 2010</b>				
Professor Bai Chang Hong	59	—	—	59
Mr. Lee Keung, Thomson	59	—	—	59
Ms. An Na	59	—	—	59
	<u>177</u>	<u>—</u>	<u>—</u>	<u>177</u>

**(b) Non-executive directors**

Mr. Cheung Miu and Mr. Sze Ching Bor were appointed as non-executive directors on 22 May 2010. Prior to that, Mr. Cheung Miu was an executive director of the Company for the period from 22 September 2008 to 21 May 2010 and Mr. Sze Ching Bor was an executive director of the Company for the period from 10 March 2008 to 21 July 2008. There were no fees or other emoluments payable to them, neither as executive director nor as non-executive director, during the Relevant Periods.

**(c) Executive directors**

In respect of individuals, who act as executive directors of the Company as at the date of this report, the remuneration received or receivable from the Group during each of the Relevant Periods is as follows:

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended 31 December 2007</b>				
Mr. Zheng Liuhe	—	180	—	180
Mr. Chen Qingwei	—	156	—	156
Mr. Zhang Aiguo	—	156	1	157
Mr. Zheng Jingdong	—	156	1	157
	<u>—</u>	<u>648</u>	<u>2</u>	<u>650</u>
<b>Year ended 31 December 2008</b>				
Mr. Zheng Liuhe	—	180	—	180
Mr. Chen Qingwei	—	156	—	156
Mr. Zhang Aiguo	—	156	1	157
Mr. Zheng Jingdong	—	156	1	157
	<u>—</u>	<u>648</u>	<u>2</u>	<u>650</u>



During the year ended 31 December 2008, Mr. Tsang Chin Tiong, Mr. Zheng Guozhang and Mr. Sze Ching Bor were appointed as executive directors of the Company on 10 March 2008 and resigned on 21 July 2008. Mr. Cheung Miu was appointed as an executive director of the Company on 22 September 2008 and resigned on 21 May 2010. The remunerations received or receivable by them for the year ended 31 December 2008 are as follows:

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Tsang Chin Tiong	—	240	—	240
Mr. Zheng Guozhang	—	72	1	73
Mr. Sze Ching Bor	—	—	—	—
Mr. Cheung Miu	—	—	—	—
	<u>—</u>	<u>312</u>	<u>1</u>	<u>313</u>

**Year 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
	<u>—</u>	<u>648</u>	<u>2</u>	<u>650</u>

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

**Nine months ended  
30 September 2009  
(unaudited)**

Mr. Zheng Liuhe	—	135	—	135
Mr. Chen Qingwei	—	117	—	117
Mr. Zhang Aiguo	—	117	1	118
Mr. Zheng Jingdong	—	117	1	118
	<u>—</u>	<u>486</u>	<u>2</u>	<u>488</u>

There were no fees or other emoluments payable to Mr. Cheung Miu, who served as an executive director of the Company for the nine months ended 30 September 2009.

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Nine months ended 30 September 2010</b>				
Mr. Zheng Liuhe	—	172	—	172
Mr. Chen Qingwei	—	156	—	156
Mr. Zhang Aiguo	—	156	1	157
Mr. Zheng Jingdong	—	148	1	149
	<u>—</u>	<u>632</u>	<u>2</u>	<u>634</u>

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.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

#### 11. FIVE HIGHEST PAID EMPLOYEES

During the years ended 31 December 2007 and 2009 and the nine months ended 30 September 2009 and 2010, four of the highest paid individuals were directors of the Company. During the year ended 31 December 2008, all five highest paid individuals were directors of the Company.

Details of the remuneration of the remaining non-director, highest paid employee during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	<u>240</u>	<u>—</u>	<u>240</u>	<u>180</u>	<u>573</u>
	<u>240</u>	<u>—</u>	<u>240</u>	<u>180</u>	<u>573</u>

During the years ended 31 December 2007, 2009 and nine months ended 30 September 2009, the remuneration of the non-director, highest paid employee fell within the band of Nil to RMB500,000. During the nine months ended 30 September 2010, the remuneration of the non-director, highest paid employee fell within the band of RMB500,001 to RMB1,000,000.

During the Relevant Periods, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## **12. 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 Relevant Periods. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law, enterprises were subject to PRC national corporate income tax ("CIT") at a rate of 30% and local CIT at a rate of 3% for the year ended 31 December 2007. Since Quanzhou Baofeng operated in a costal economic open zone of Mainland China, it was granted a preferential national CIT rate of 24% for the year ended 31 December 2007. As Quanzhou Baofeng was an export-oriented foreign invested enterprise whose sale of export products reached the regulatory required threshold in 2007 as confirmed by the relevant regulatory governmental authority in Mainland China, it was granted a 50% reduction in respect of the national CIT and exempted from local CIT. The CIT tax rate for the year ended 31 December 2007 was 12%.

Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the PRC effective on 1 January 2008, the PRC CIT rate was unified at 25% for all enterprises. Quanzhou Baofeng immediately transited to the applicable tax rate of 25% for the years ended 31 December 2008 and 2009 and for the nine months ended 30 September 2010.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group:					
Current - Mainland China					
Charged for the year/period	9,508	26,037	29,958	19,544	42,424
Underprovision in prior years	456	604	731	731	606
Deferred (note 30)	—	—	3,500	—	—
Total tax charge for the year/period	<u>9,964</u>	<u>26,641</u>	<u>34,189</u>	<u>20,275</u>	<u>43,030</u>

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:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Profit before tax	<u>78,893</u>	<u>84,825</u>	<u>104,294</u>	<u>65,468</u>	<u>147,567</u>
Tax at the applicable tax rates	21,301	23,111	27,431	17,389	36,714
Lower tax rate for specific provinces or enacted by local authority	(11,793)	—	—	—	—
Adjustment in respect of current tax of prior years	456	604	731	731	606
Income not subject to tax	—	(961)	—	—	(3,356)
Expenses not deductible for tax	—	3,306	2,125	1,526	3,208
Tax losses not recognised	—	462	620	543	117
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	—	—	3,500	—	5,500
Others	<u>—</u>	<u>119</u>	<u>(218)</u>	<u>86</u>	<u>241</u>
Tax charge at the Group's effective tax rates	<u>9,964</u>	<u>26,641</u>	<u>34,189</u>	<u>20,275</u>	<u>43,030</u>

The Group has tax losses arising in Hong Kong of approximately Nil, RMB2,800,000 and RMB6,558,000 as at 31 December 2007, 2008 and 2009, respectively, and RMB7,270,000 as at 30 September 2010 that are available indefinitely for offsetting against future taxable profits of the company in which they arose. A deferred tax asset has not been recognised as at the end of each of the Relevant Periods in respect of the tax losses as the directors of the Company consider that it is uncertain to the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

**13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The consolidated profit attributable to owners of the Company includes the following amounts, which have been dealt with in the Financial Information of the Company.

	Period ended	Year ended	Nine months ended	
	31 December	31 December	30 September	
	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Profit/(loss) (note 32(b))	<u>(19,709)</u>	<u>(14,618)</u>	<u>(11,144)</u>	<u>95,526</u>

**14. DIVIDENDS**

Interim dividend of HK\$694 per ordinary share, amounting to HK\$70,000,000 (equivalent to RMB60,900,000), 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 20 to the Financial Information.

The dividends paid by the Company's subsidiary to its then shareholders during the years ended 31 December 2007 and 2008 were RMB50,000,000 and RMB43,000,000, respectively. The rates of dividend and the number of shares ranking for dividend are not presented as such information is not considered meaningful for the purpose of this report.

**15. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation.

## 16. PROPERTY, PLANT AND EQUIPMENT

## Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2007</b>							
Cost:							
At 1 January 2007	22,628	16,480	1,668	835	—	3,719	45,330
Additions	—	4,912	134	414	—	5,420	10,880
Disposals	—	(3,814)	—	—	—	—	(3,814)
Transfers	9,139	—	—	—	—	(9,139)	—
At 31 December 2007	31,767	17,578	1,802	1,249	—	—	52,396
Accumulated depreciation:							
At 1 January 2007	4,136	4,326	738	293	—	—	9,493
Provided during the year	1,280	2,171	325	201	—	—	3,977
Disposals	—	(1,678)	—	—	—	—	(1,678)
At 31 December 2007	5,416	4,819	1,063	494	—	—	11,792
Net carrying amount:							
At 31 December 2007	26,351	12,759	739	755	—	—	40,604
<b>31 December 2008</b>							
Cost:							
At 1 January 2008	31,767	17,578	1,802	1,249	—	—	52,396
Additions	10,616	1,855	4,730	846	—	—	18,047
Disposals	—	(770)	—	—	—	—	(770)
At 31 December 2008	42,383	18,663	6,532	2,095	—	—	69,673
Accumulated depreciation:							
At 1 January 2008	5,416	4,819	1,063	494	—	—	11,792
Provided during the year	1,676	2,474	523	245	—	—	4,918
Disposals	—	(393)	—	—	—	—	(393)
At 31 December 2008	7,092	6,900	1,586	739	—	—	16,317
Net carrying amount:							
At 31 December 2008	35,291	11,763	4,946	1,356	—	—	53,356

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2009</b>							
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
<b>30 September 2010</b>							
Cost:							
At 1 January 2010	42,383	18,751	6,097	2,452	1,817	—	71,500
Additions	—	458	—	1,295	—	—	1,753
Disposals	—	(4)	—	(14)	—	—	(18)
At 30 September 2010	42,383	19,205	6,097	3,733	1,817	—	73,235
Accumulated depreciation:							
At 1 January 2010	9,314	8,726	2,293	1,142	151	—	21,626
Provided during the period	1,510	1,357	751	317	273	—	4,208
Disposals	—	(1)	—	(13)	—	—	(14)
At 30 September 2010	10,824	10,082	3,044	1,446	424	—	25,820
Net carrying amount:							
At 30 September 2010	31,559	9,123	3,053	2,287	1,393	—	47,415

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

Included in "Buildings" is a property for self-use with a carrying amount of approximately RMB9,000, RMB9,000, RMB8,000 and RMB8,000 at 31 December 2007, 2008, 2009 and 30 September 2010, respectively, for which the Group has not yet obtained the building ownership certificates.



## 17. PREPAID LAND LEASE PAYMENTS

## Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at beginning of the year/period	3,012	2,944	5,624	5,837
Additions	—	2,748	340	25,082
Amortisation during the year/period	<u>(68)</u>	<u>(68)</u>	<u>(127)</u>	<u>(99)</u>
Carrying amount at end of the year/period	2,944	5,624	5,837	30,820
Current portion included in prepayments, deposits and other receivables	<u>(68)</u>	<u>(68)</u>	<u>(119)</u>	<u>(653)</u>
Non-current portion	<u>2,876</u>	<u>5,556</u>	<u>5,718</u>	<u>30,167</u>

The leasehold lands are situated in Mainland China and are held under medium term leases.

## 18. DEPOSITS PAID

## Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit paid for land use rights	—	28,260	28,260	—
Deposit paid for property, plant and equipment	<u>—</u>	<u>649</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>28,909</u>	<u>28,260</u>	<u>—</u>

Pursuant to a letter of intent signed between Quanzhou Baofeng 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.

## 19. PREPAID RENT

## Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at beginning of the year/period	—	—	—	6,197
Additions	—	—	8,676	2,479
Amortisation during the year/period	—	—	(2,479)	(3,718)
Carrying amount at end of the year/period	—	—	6,197	4,958
Current portion included in prepayments, deposits and other receivables	—	—	(2,479)	(3,099)
Non-current portion	—	—	3,718	1,859

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.

## 20. INTERESTS IN A SUBSIDIARY

## Company

	31 December		30 September
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	303,650	303,650	303,650
Due from a subsidiary	65,708	60,897	58,078
	<u>369,358</u>	<u>364,547</u>	<u>361,728</u>

The amount due from a subsidiary is unsecured, interest-free and not repayable within twelve months as at the end of each of the Relevant Periods.

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. In the opinion of the directors, the approvals will be obtained on or before 31 March 2011.

All the Company's amounts due from a subsidiary as at 31 December 2008, 31 December 2009 and 30 September 2010 were pledged to CITIC Capital 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 28 to the Financial Information.

## 21. INVENTORIES

### Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	23,418	7,285	5,871	4,404
Work in progress	5,962	9,259	10,175	8,515
Finished goods	13,911	20,044	39,577	27,167
	<u>43,291</u>	<u>36,588</u>	<u>55,623</u>	<u>40,086</u>

## 22. TRADE RECEIVABLES

### Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	60,653	82,566	97,241	70,587
Impairment	(4,027)	—	—	—
	<u>56,626</u>	<u>82,566</u>	<u>97,241</u>	<u>70,587</u>

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 number of diversified customers, there is certain concentration of credit risk. Trade receivables are non-interest-bearing.

At the end of each of the Relevant Periods, an aged analysis of the trade receivables, based on the invoice date, is as follows:

**Group**

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	56,386	82,566	89,988	68,220
3 to 6 months	196	—	7,253	2,367
6 months to 1 year	44	—	—	—
	<u>56,626</u>	<u>82,566</u>	<u>97,241</u>	<u>70,587</u>

The movement in provision for impairment of trade receivables for each of the Relevant Periods is as follows:

**Group**

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	4,276	4,027	—	—
Amount written off as uncollectible	(249)	(240)	—	—
Impairment losses reversed	—	(3,787)	—	—
At end of the year/period	<u>4,027</u>	<u>—</u>	<u>—</u>	<u>—</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables with a carrying amount before provision of RMB4,027,000 as at 31 December 2007.

At the end of each of the Relevant Periods, the analysis of trade receivables that were past due but not impaired is as follows:

**Group**

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	
			<b>Less than 3 months</b>	<b>More than 3 months</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2007	56,626	56,386	196	44
31 December 2008	82,566	82,566	—	—
31 December 2009	97,241	89,988	7,253	—
30 September 2010	<u>70,587</u>	<u>68,220</u>	<u>2,367</u>	<u>—</u>

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 are of the opinion that no provision for 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 RMB33,747,000, RMB26,274,000 and RMB11,312,000 as at 31 December 2007, 31 December 2009 and 30 September 2010, respectively, to secure the bank borrowings granted to the Group (note 27).

**23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES****Group**

	<b>31 December</b>			<b>30 September</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	2,610	1,829	4,555	8,711
Deposits	—	—	—	665
Other receivables	—	136	2	185
	<u>2,610</u>	<u>1,965</u>	<u>4,557</u>	<u>9,561</u>

**Company**

	31 December		30 September
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment	<u>—</u>	<u>—</u>	<u>2,449</u>

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.

**24. CASH AND BANK BALANCES**

At 31 December 2007, 2008, 2009 and 30 September 2010, the Group's cash and bank balances denominated in RMB amounted to RMB57,375,000, RMB107,592,000, RMB178,214,000 and RMB300,257,000, respectively. 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 authorized 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.

**25. TRADE PAYABLES**

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

**Group**

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	<u>12,264</u>	<u>65,276</u>	<u>45,227</u>	<u>33,420</u>

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

## 26. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

## Group

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits received	—	4,036	1,560	2,390
Accruals	5,597	8,848	8,161	7,811
Other payables	5,802	4,845	2,173	13,324
	<u>11,399</u>	<u>17,729</u>	<u>11,894</u>	<u>23,525</u>

## Company

	31 December		30 September
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals	—	—	322
Other payable	—	1,358	5,538
	<u>—</u>	<u>1,358</u>	<u>5,860</u>

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

## 27. INTEREST-BEARING BANK BORROWINGS

## Group

	31 December			30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current</b>				
Bank loans - unsecured	29,000	31,400	29,500	15,000
Bank loans - secured	<u>30,329</u>	<u>—</u>	<u>25,000</u>	<u>9,704</u>
	<u>59,329</u>	<u>31,400</u>	<u>54,500</u>	<u>24,704</u>
<b>Analysed into:</b>				
Bank loans repayable within one year	<u>59,329</u>	<u>31,400</u>	<u>54,500</u>	<u>24,704</u>

## Notes:

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

Year ended 31 December 2007	5.838% - 7.657% per annum
Year ended 31 December 2008	5.346% - 8.217% per annum
Year ended 31 December 2009	4.374% - 5.310% per annum
Nine months ended 30 September 2010	2.974% - 5.576% per annum

- (b) Certain of the Group's bank loans were secured by the pledge of the Group's trade receivables amounting to RMB33,747,000, RMB26,274,000 and RMB11,312,000, as at 31 December 2007, 31 December 2009 and 30 September 2010, respectively.

- (c) At 31 December 2007, the bank loans of RMB9,000,000 were guaranteed by 福建寶峰輕工有限公司 (Fujian Baofeng Light Industry Co., Ltd.\*), a company of which Mr. Zheng Liuhe, a director of the Company, was the then director. The guarantee expired on 29 March 2008.

At 31 December 2008, 31 December 2009 and 30 September 2010, the bank loans of RMB10,000,000, RMB24,500,000 and RMB5,000,000, respectively, were guaranteed by 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited\*), a company beneficially owned by Mr. Sze Ching Bor, a director and the controlling shareholder of the Company. The bank loan of RMB5,000,000 was fully repaid on 21 December 2010 and accordingly, the guarantee was released before the Listing Date.

\* For identification only



**28. 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 31 to the Financial Information.

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 years 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").

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 the 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 years ended 31 December 2008, 2009 and 2010.

The Exchangeable Note with embedded derivative features is 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 year 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 year 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 the 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 30 September 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.

<u>Exchangeable Note</u>	<u>Notes</u>	<u>RMB'000</u>
Nominal value of the Exchangeable Note issued on 23 September 2008		67,915
Transaction costs related to the liability component		(2,201)
Equity component at the issuance date		(13,518)
Derivative component at the issuance date		<u>—</u>
Liability component at the issuance date		52,196
Interest expense for the year		<u>19,703</u>
Liability component at 31 December 2008		71,899
Interest expense for the year		12,580
Interest paid during the year		<u>(4,131)</u>
Liability component at 31 December 2009		80,348
Restructuring of the Exchangeable Note:		
Shareholders' assumption of the Maturity Yield Payment	32(a)(i), 32(b)	(7,914)
Waiver of the Maturity Yield Payment	8	(20,342)
Interest expense for the period	8	8,106
Interest paid during the period		<u>(5,519)</u>
Liability component at 30 September 2010		<u>54,679</u>
Derivative component at the issuance date, 31 December 2008 and 31 December 2009		<u>—</u>

The Exchangeable Note and the New Exchangeable Note were secured by the following: (i) the 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 amount 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 the Shareholders to exercise the Exchange Right of the New Exchangeable Note in full. Further details have been disclosed in Section 3 below.

## 29. AMOUNTS DUE TO A DIRECTOR AND A RELATED COMPANY

The amount due to a director, Mr. Sze Ching Bor, and the amount due to a related company, Po Fai Travel Trading Company ("Po Fai Travel"), a company beneficially owned by Mr. Sze Ching Bor, a director and the controlling shareholder of the Company, were unsecured, interest free and had no fixed terms of repayment.

The Group fully repaid the amount due to the related company in February 2010. The amount due to a director was fully discharged upon the issuance of certain ordinary shares of the Company. Further details of the issuance of ordinary shares of the Company have been disclosed in Section 3 below.

## 30. DEFERRED TAX LIABILITIES

### Group

	<u>Withholding taxes</u>
	<i>RMB'000</i>
At 1 January 2007, 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	—
Deferred tax charged to the income statement during the year (note 12)	<u>3,500</u>
At 31 December 2009 and 1 January 2010	3,500
Transferred to tax payable during the period	<u>(3,500)</u>
At 30 September 2010	<u>—</u>

Pursuant to the New PRC Tax Law, 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 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 the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on the factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2008 and 2009, and 30 September 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 totalled approximately RMB72,474,000, RMB118,449,000 and RMB171,256,000, respectively.

### 31. SHARE CAPITAL

The issued capital as at 31 December 2007 represented the amount of paid-in capital of Quanzhou Baofeng, which is now a subsidiary of the Company.

The issued capital as at 31 December 2008, 31 December 2009 and 30 September 2010 represented the issued share capital of the Company.

A summary of the transactions from 6 March 2008 (date of incorporation) to 30 September 2010 with reference to the movements in the Company's authorised, issued ordinary and issued preference share capital is as follows:

#### (a) Authorised share capital

	Notes	Number of ordinary shares of US\$0.01 each	Nominal value of ordinary shares  <i>US\$'000</i>	Nominal value of ordinary shares  <i>RMB'000</i>
<b>Authorised ordinary shares</b>				
Upon incorporation	(i)	5,000,000	50	342
Redesignated as a preference share during the period	(ii)	<u>(1)</u>	<u>—</u>	<u>—</u>
At 31 December 2008, 1 January 2009, 31 December 2009, 1 January 2010 and 30 September 2010		<u>4,999,999</u>	<u>50</u>	<u>342</u>

	Notes	Number of preference shares of US\$0.01 each	Nominal value of preference shares  <i>US\$'000</i>	Nominal value of preference shares  <i>RMB'000</i>
<b>Authorised preference share</b>				
Redesignated as a preference share during the period	(ii)	1	—	—
At 31 December 2008, 1 January 2009, 31 December 2009, 1 January 2010 and 30 September 2010		<u>1</u>	<u>—</u>	<u>—</u>

*Notes:*

- (i) The Company was incorporated in the Cayman Islands on 6 March 2008 with an authorised share capital of US\$50,000 divided into 5,000,000 ordinary shares of US\$0.01 each.
- (ii) 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. Since then, there were no changes in the authorised share capital.

**(b) Issued share capital**

	Notes	Number of ordinary shares of US\$0.01 each	Nominal value of ordinary shares  <i>US\$'000</i>	Nominal value of ordinary shares  <i>RMB'000</i>
<b>Issued ordinary shares</b>				
Upon incorporation	(i)	1	—	—
Allotment during the period	(ii)	<u>99,999</u>	<u>1</u>	<u>7</u>
At 31 December 2008, 1 January 2009, 31 December 2009 and 1 January 2010		100,000	1	7
Issue of shares	(iii)	<u>816</u>	<u>—</u>	<u>—</u>
At 30 September 2010		<u>100,816</u>	<u>1</u>	<u>7</u>

	Notes	Number of	Nominal	Nominal
		preference share of US\$0.01 each	value of preference share	value of preference share
			US\$'000	RMB'000
<b>Issued preference share</b>				
Allotment during the period	(iv)	1	—	—
At 31 December 2008, 1 January 2009, 31 December 2009, 1 January 2010 and 30 September 2010		<u>1</u>	<u>—</u>	<u>—</u>

*Notes:*

- (i) On 6 March 2008, one ordinary share of the Company was allotted and issued at par as nil paid to the initial subscriber and was immediately transferred to Mr. Sze Ching Bor, a director and the controlling shareholder of the Company. On 21 July 2008, Best Mark International Limited ("Best Mark"), which is wholly-owned by Mr. Sze Ching Bor, acquired one ordinary share of the Company from Mr. Sze Ching Bor.
- (ii) On 7 April 2008, 35,989, 17,515, 28,980 and 17,515 ordinary shares of the Company were allotted at par and credited as fully paid to Mr. Sze Ching Bor, a director and the controlling shareholder of the Company, Mr. Tsang Chin Tiong, a then director and the then ultimate shareholder of the Company, Mr. Zheng Guozhang and Mr. Chen Qingwei, the directors of the Company, respectively. On 21 July 2008, Fortune Best Holdings Limited ("Fortune Best"), which was wholly owned by Mr. Tsang Chin Tiong, acquired 10,195 ordinary shares of the Company from Mr. Tsang Chin Tiong. On the same date, Best Mark and Capital Vision International Limited ("Capital Vision"), which are wholly-owned by Mr. Sze Ching Bor, acquired 35,989, 7,320, 28,980 and 17,515 ordinary shares of the Company from Mr. Sze Ching Bor, Mr. Tsang Chin Tiong, Mr. Zheng Guozhang and Mr. Cheng Qingwei, respectively. Since then, the Company was beneficially owned as to 89.805% by Mr. Sze Ching Bor and as to 10.195% by Mr. Tsang Chin Tiong. On 11 May 2010, Mr. Tsang Chin Tiong transferred the entire issued share capital of Fortune Best to Ms. Chan Sau Fong, his wife, for nil consideration.
- (iii) Pursuant to the share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze Ching Bor 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 Ching Bor, of HK\$10 million (equivalent to RMB8,707,000) at 30 June 2010. The loan capitalisation resulted in an increase in issued share capital by RMB55 and share premium account by RMB8,707,000.
- (iv) Pursuant to the Agreement entered into among CITIC Capital, the Company and its shareholders on 8 August 2008, the Company issued to CITIC Capital one preference share at a consideration of US\$0.01 on 23 September 2008. For so long as CITIC Capital holds the preference share, CITIC Capital shall be exclusively entitled to appoint or remove one director to serve on the board of directors of the Company. Upon redemption of the Exchangeable Note in full, the Company shall have the right to redeem or repurchase the preference share at a total consideration of the par value of the preference share of US\$0.01 from CITIC Capital.



**32. RESERVES****(a) Group**

The amounts of the Group's reserves and movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity.

**(i) Contributed surplus**

As at 31 December 2009, the contributed surplus represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the Reorganisation 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 Capital under the Exchangeable Note with an aggregate carrying value of RMB13,518,000 as at Original Issuance Date (note 28).

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 nine months ended 30 September 2010 (note 28).

**(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 profit after tax (after offsetting any prior year's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of its respective 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 4 to the Financial Information.

## (b) Company

	Share premium	Contributed surplus	Retained profit/ (accumulated losses)	Total reserves
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Upon incorporation	—	—	—	—
Loss for the period	—	—	(19,709)	(19,709)
Total comprehensive income for the period Arising on the Reorganisation	—	—	(19,709)	(19,709)
Issue of exchangeable note (note 28)	—	303,643	—	303,643
	—	13,518	—	13,518
At 31 December 2008 and 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 period	—	—	95,526	95,526
Total comprehensive income for the period	—	—	95,526	95,526
Issue of shares (note 31(b)(iii))	8,707	—	—	8,707
Restructuring of exchangeable note (note 28)	—	7,914	—	7,914
Interim dividend (note 14)	—	—	(60,900)	(60,900)
At 30 September 2010	<u>8,707</u>	<u>325,075</u>	<u>299</u>	<u>334,081</u>
At 1 January 2009	—	317,161	(19,709)	297,452
Loss for the period (unaudited)	—	—	(11,144)	(11,144)
Total comprehensive income for the period (unaudited)	—	—	(11,144)	(11,144)
At 30 September 2009 (unaudited)	<u>—</u>	<u>317,161</u>	<u>(30,853)</u>	<u>286,308</u>

The contributed surplus at 31 December 2008 and 2009 represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the Reorganisation over the consideration paid for acquiring these subsidiaries of RMB303,643,000; and the capital contribution from the Shareholders in the form of the Exchange 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 28).

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 nine months ended 30 September 2010 (note 28).

### 33. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

#### Major non-cash transactions

##### (a) *Reorganisation*

Pursuant to the Reorganisation, BAOF HK, the Company's subsidiary, effectively acquired the entire equity interest in Quanzhou Baofeng from Po Fai Travel at a consideration of RMB50,000,000 (the "Consideration") on 22 February 2008. The Consideration was determined with reference to the paid-in capital of Quanzhou Baofeng at the time of transfer. The right of receiving the Consideration was assigned by Po Fai Travel to Mr. Sze Ching Bor, a director and the controlling shareholder of the Company, and Mr. Tsang Chin Tiong, a then director and a then ultimate shareholder of the Company. Mr. Sze Ching Bor and Mr. Tsang Chin Tiong were also the shareholders of Po Fai Travel. On 8 October 2008, pursuant to the Deed of Assignment and Novation (the "Deed") signed among the Company, Po Fai Travel, BAOF HK, Mr. Sze Ching Bor and Mr. Tsang Chin Tiong, it was agreed that BAOF HK's obligation to pay the Consideration to Mr. Sze Ching Bor and Mr. Tsang Chin Tiong was satisfied by the issuance of BAOF HK's ordinary shares to the Company and the issuance of the Company's shares to Mr. Sze Ching Bor and Mr. Tsang Chin Tiong. The above acquisition was accounted for in accordance with the principles of merger accounting as set out in note 2 to the Financial Information.

##### (b) *Addition to prepaid land lease payments*

The addition to prepaid land lease payments of RMB2,748,000 during the year ended 31 December 2008 had not been settled and was recorded as an other payable as at 31 December 2008. The balance was settled in the year ended 31 December 2009.

**(c) Loan capitalisation**

Pursuant to the share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze Ching Bor, a director and the controlling shareholder 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 Ching Bor, of HK\$10 million (equivalent to RMB8,707,000) at 30 June 2010.

**34. CONTINGENT LIABILITIES**

At the end of each of the Relevant Periods, the Group and the Company did not have any significant contingent liabilities.

**35. OPERATING LEASE ARRANGEMENTS**

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

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

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	2,100	1,050	2,479	2,553
In the second to fifth years, inclusive	<u>1,050</u>	<u>—</u>	<u>3,718</u>	<u>1,859</u>
	<u>3,150</u>	<u>1,050</u>	<u>6,197</u>	<u>4,412</u>

At the end of each of the Relevant Periods, the Company did not have any significant operating lease commitments.

**36. COMMITMENTS**

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the end of each of the Relevant Periods:

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for commitments in respect of:				
- purchase of items of plant, property and equipment	—	300	—	—
- acquisition of land use rights	—	3,490	3,490	—
- advertising and consultancy services	—	3,742	480	900
- research and development	—	—	—	2,500
	—	7,532	3,970	3,400

At the end of each of the Relevant Periods, the Company did not have any significant commitments.

**37. RELATED PARTY TRANSACTIONS**

Save as disclosed in notes (27)(c), (28), (29) and (33)(c) in the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

- (a) 福建寶峰輕工有限公司 (Fujian Baofeng Light Industry Co., Ltd.\*) guaranteed certain bank loans made available to the Group up to RMB49,000,000 for the years ended 31 December 2007 and 31 December 2008. 福建寶峰輕工有限公司 (Fujian Baofeng Light Industry Co., Ltd.\*) is a company of which Mr. Zheng Liuhe, a director of the Company, was the then director. The above transaction was terminated upon expiry of the guarantee on 29 March 2008.
- (b) 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 RMB10,000,000, RMB24,500,000 and RMB5,000,000 at 31 December 2008 and 2009 and 30 September 2010, respectively. 泉州寶鑫合成革有限公司 (Quanzhou Baoxin He Cheng Ge Company Limited\*) is beneficially owned by Mr. Sze Ching Bor, a director and the controlling shareholder of the Company, and Mr. Tsang Chin Tiong, a then director and a then shareholder of the Company. The bank loan of RMB5,000,000 was fully repaid on 21 December 2010 and accordingly, the guarantee was released before the Listing Date.

\* For identification only

(c) Quanzhou Baofeng Travel Products Company Limited ("Baofeng Travel") transferred certain of its trademarks and patents to the Group, which are in relation to the Group's operations at nil consideration. Baofeng Travel was wholly-owned by Po Fai Travel, which was in turn owned by Mr. Sze Ching Bor, a director and the controlling shareholder of the Company, and Mr. Tsang Chin Tiong, a then director and a then shareholder of the Company. As at 31 December 2008, the registrations of these trademarks and patents with the relevant PRC authorities in the name of Quanzhou Baofeng have been completed.

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

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	648	648	648	486	632
Pension scheme contributions	2	2	2	2	2
	<u>650</u>	<u>650</u>	<u>650</u>	<u>488</u>	<u>634</u>

### 38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

#### Group

##### *Financial assets - Loans and receivables*

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	56,626	82,566	97,241	70,587
Other receivables (note 23)	—	136	2	185
Cash and bank balances	<u>57,534</u>	<u>135,163</u>	<u>178,504</u>	<u>303,137</u>
	<u>114,160</u>	<u>217,865</u>	<u>275,747</u>	<u>373,909</u>

**Company*****Financial assets - Loans and receivables***

	31 December		30 September
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from a subsidiary (note 20)	<u>65,708</u>	<u>60,897</u>	<u>58,078</u>

**Group*****Financial liabilities at amortised cost***

	31 December			30 September
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	12,264	65,276	45,227	33,420
Other payables (note 26)	5,802	4,845	2,173	13,324
Interest-bearing bank borrowings	59,329	31,400	54,500	24,704
Exchangeable note	—	71,899	80,348	54,679
Due to a director	—	—	679	5,137
Due to a related company	—	—	170	—
	<u>77,395</u>	<u>173,420</u>	<u>183,097</u>	<u>131,264</u>

**Company*****Financial liabilities at amortised cost***

	31 December		30 September
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other payables (note 26)	—	1,358	5,538
Exchangeable note	<u>71,899</u>	<u>80,348</u>	<u>54,679</u>
	<u>71,899</u>	<u>81,706</u>	<u>60,217</u>

**Group and Company*****Financial liabilities at fair value through profit or loss — designated as such upon initial recognition***

Derivative component of exchangeable note, of which the carrying amount was Nil at 31 December 2007, 2008 and 2009, is classified as a financial liability at fair value through profit or loss - designated as such upon initial recognition.

**39. 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, other receivables, trade payables and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is, and has been, throughout the year/period under review, the Group's policy that no trading in financial instruments shall be undertaken.

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:

**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 each of the Relevant Periods 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
<b>31 December 2007</b>		
If USD strengthens against RMB	5	(1,611)
If USD weakens against RMB	(5)	1,611
<b>31 December 2008</b>		
If USD strengthens against RMB	5	(3,023)
If USD weakens against RMB	(5)	3,023
<b>31 December 2009</b>		
If USD strengthens against RMB	5	(2,280)
If USD weakens against RMB	(5)	2,280
<b>30 September 2010</b>		
If USD strengthens against RMB	5	(2,724)
If USD weakens against RMB	(5)	2,724

### ***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 counterparty with a maximum exposure equal to the carrying amounts 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.

**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 the 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 the end of each of the Relevant Periods, based on the contractual undiscounted payments.

**Group****31 December 2007**

	<b>On demand and within 1 year</b>
	<i>RMB'000</i>
Trade payables	12,264
Other payables (note 26)	5,802
Interest-bearing bank borrowings	<u>60,475</u>
	<u>78,541</u>

**31 December 2008**

	<b>On demand and within 1 year</b>
	<i>RMB'000</i>
Trade payables	65,276
Other payables (note 26)	4,845
Interest-bearing bank borrowings	32,978
Exchangeable note	<u>111,586</u>
	<u>214,685</u>

**31 December 2009**

	<b>On demand and within 1 year</b>
	<i>RMB'000</i>
Trade payables	45,227
Other payables (note 26)	2,173
Interest-bearing bank borrowings	55,822
Exchangeable note	107,454
Due to a director	679
Due to a related company	<u>170</u>
	<u>211,525</u>

**30 September 2010**

	<b>On demand and within 1 year</b>
	<i>RMB'000</i>
Trade payables	33,420
Other payables (note 26)	13,324
Interest-bearing bank borrowings	25,337
Exchangeable note	73,210
Due to a director	<u>5,137</u>
	<u>150,428</u>

**Company****31 December 2008**

	<b>On demand and within 1 year</b>
	<i>RMB'000</i>
Exchangeable note	<u>111,586</u>

**31 December 2009**

	<u>On demand and within 1 year</u>
	<i>RMB'000</i>
Other payables (note 26)	1,358
Exchangeable note	<u>107,454</u>
	<u>108,812</u>

**30 September 2010**

	<u>On demand and within 1 year</u>
	<i>RMB'000</i>
Other payables (note 26)	5,538
Exchangeable note	<u>73,210</u>
	<u>78,748</u>

**Commodity price risk**

The major raw material used in the production of the Group's products includes plastics. The Group is exposed to fluctuations in the price of this raw material which is influenced by global as well as regional supply and demand conditions. Fluctuations in the price of this raw material 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.

**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 Relevant Periods.

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

	31 December			30 September
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	12,264	65,276	45,227	33,420
Deposits received, other payables and accruals	11,399	17,729	11,894	23,525
Interest-bearing bank borrowings	59,329	31,400	54,500	24,704
Exchangeable note (including derivative component)	—	71,899	80,348	54,679
Amount due to a Director	—	—	679	5,137
Amount due to a related company	—	—	170	—
Total debt	<u>82,992</u>	<u>186,304</u>	<u>192,818</u>	<u>141,465</u>
Equity attributable to owners of the Company	<u>124,640</u>	<u>153,497</u>	<u>223,602</u>	<u>283,860</u>
Total equity plus total debt	<u>207,632</u>	<u>339,801</u>	<u>416,420</u>	<u>425,325</u>
Gearing ratio	<u>40%</u>	<u>55%</u>	<u>46%</u>	<u>33%</u>

### 3. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 September 2010, the following events occurred:

- (i) In addition to the amount of HK\$5,900,000 (equivalent to RMB5,137,000) advanced to the Company as at 30 September 2010, Mr. Sze Ching Bor, a director of the Company, has further advanced HK\$9,100,000 (equivalent to RMB7,923,000) to the Company and the total amount due to Mr. Sze Ching Bor was HK\$15,000,000 (equivalent to RMB13,060,000) up to 21 December 2010. Pursuant to the share subscription agreement signed among the Company, BAOF HK, Best Mark and Mr. Sze Ching Bor 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 fully discharging the Group's obligation to repay HK\$15,000,000 to Mr. Sze Ching Bor.

- (ii) 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 the conditions set out in the section headed "Exchange of the 2008 Exchangeable Note" under the section headed "History, Reorganisation and Group Structure" in the Prospectus. When the Exchangeable Shares are delivered to CITIC Capital, the liability component of the New Exchangeable Note will be extinguished and results in an increase in the contributed surplus in shareholders' equity.

#### **4. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2010.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the investors with further information to access our Group's financial performance and to illustrate the financial condition after the completion of the Global Offering.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of our Group during the Track Record Period or any further date.

#### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma adjusted consolidated net tangible assets of our Group which is based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 September 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets attributable to owners of our Company as at 30 September 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000 <sup>(1)</sup>	RMB'000 <sup>(2)</sup>	RMB'000	RMB <sup>(3)</sup>	HK\$ <sup>(4)</sup>
Based on the maximum indicative Offer Price of HK\$2.98 per Share	283,860	603,725	887,585	0.89	1.04
Based on the minimum indicative Offer Price of HK\$1.99 per Share	283,860	398,127	681,987	0.68	0.80

Notes:

1. The audited consolidated net tangible assets attributable to the owners of our Company as at 30 September 2010 are based on audited consolidated net assets attributable to the owners of our Company as at 30 September 2010 of approximately RMB283,860,000 as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 250,000,000 New Shares at the maximum indicative and minimum indicative Offer Price of HK\$2.98 and HK\$1.99 per Offer Share, respectively, after deduction of underwriting fees and other related fees and expenses incurred by our Company since 1 October 2010. The calculation of such estimated net proceeds does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates approved on 8 January 2011 which is set out in Appendix VI to this prospectus.

3. *The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 1,000,000,000 Shares in issue immediately following completion of the Global Offering. It does not take into account any Shares which may be issued upon exercise of the Over-allotment Option.*
4. *The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share are converted into Hong Kong Dollars at an exchange rate of RMB1.00 to HK\$1.17.*
5. *By comparing the valuation of our property interests as set out in Appendix IV to this prospectus, the net valuation surplus is approximately RMB11.9 million as compared to the carrying amounts of our Group's property interests as at 30 September 2010, which has not been included in the above consolidated net tangible assets attributable to owners of our Company. The valuation surplus will not be incorporated in the Group's financial statements for the year ended 31 December 2010 because it is the Group's accounting policy to state the property interests, classified under the sub-sections headed "Property, plant and equipment" and "Prepaid land lease payments" in Appendix I to this prospectus, at cost less accumulated depreciation/amortisation and impairment rather than at revalued amounts. If the valuation surplus was recorded in the Group's financial statements for the year ended 31 December 2010, an additional depreciation/amortisation of approximately RMB572,000 per annum would have been incurred.*



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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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**B. UNAUDITED PRO FORMA FULLY DILUTED ESTIMATE EARNINGS PER SHARE**

Estimated consolidated profit attributable to  
owners of our Company<sup>(1)</sup> .....not less than RMB110.2 million

Unaudited pro forma estimated earnings  
per share <sup>(2 and 3)</sup> .....RMB0.11 (approximately HK\$0.13)

*Notes:*

1. *The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2010 is extracted from the section headed "Financial Information — Profit Estimate For The Year Ended 31 December 2010". The bases on which the profit estimate for the year ended 31 December 2010 have been prepared are summarised in Appendix III to this prospectus.*
2. *The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2010 and assuming a total of 1,000,000,000 shares had been in issue throughout the year ended 31 December 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, or issuing Mandate, or any Shares which may be repurchased pursuant to the Repurchase Mandate.*
3. *The unaudited pro forma estimated earnings per Share is converted into Hong Kong Dollars at an exchange rate of RMB1.00 to HK\$1.17.*

**C. LETTER FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information on our Group:*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

18 January 2011

The Directors  
Baofeng Modern International Holdings Company Limited

CMB International Capital Limited

Dear Sirs,

We report on the unaudited pro forma adjusted consolidated net tangible assets and unaudited pro forma estimated earnings per share (the “Unaudited Pro Forma Financial Information”) of Baofeng Modern International Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which have been prepared by the directors of the Company (the “Directors”) for illustrative purposes only, to provide information about how the global offering of 250,000,000 New Shares (as defined in the prospectus of the Company dated 18 January 2011) of US\$0.01 each in the capital of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 18 January 2011 (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

**Respective Responsibilities of the Directors and Reporting Accountants**

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2010 or any future dates; or
- the estimated earnings per share of the Group for the year ended 31 December 2010 or any future periods.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

Our estimate of the consolidated profit attributable to the Owners of our Company for the year ended 31 December 2010 is set out in the section headed “Financial Information — Profit Estimate for the year ended 31 December 2010” in this prospectus.

**A. BASES**

Our Directors have prepared the estimate of the consolidated profit attributable to the owners for the year ended 31 December 2010, based on the audited consolidated results of the Group for the nine months ended 30 September 2010, the unaudited consolidated results of the Group based on the management accounts of the Group for the two months ended 30 November 2010 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in the accountants’ report of our Company as set out in Appendix I to this prospectus.

**B. LETTER FROM THE REPORTING ACCOUNTANTS**

*The following is the text of a letter received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

18 January 2011

The Directors  
Baofeng Modern International Holdings Company Limited

CMB International Capital Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the estimate of the consolidated profit attributable to the owners of Baofeng Modern International Holdings Company Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ended 31 December 2010 (the "Profit Estimate") as set out in the subsection headed "Profit Estimate for the year ended 31 December 2010" under the section headed "Financial Information" in the prospectus of the Company dated 18 January 2011 (the "Prospectus") for which the directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate has been prepared by the Directors based on the audited consolidated results of the Group for the nine months ended 30 September 2010, the unaudited consolidated results of the Group for the two months ended 30 November 2010 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 18 January 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

**C. LETTER FROM THE SOLE SPONSOR**

*The following is the text of a letter prepared by the Sole Sponsor, for the purpose of incorporation in this prospectus, in connection with the estimate of our Group's consolidated profit attributable to owners of our Company for the year ended 31 December 2010.*



18 January 2011

The Directors  
Baofeng Modern International Holdings Company Limited

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to owners of Baofeng Modern International Holdings Company Limited (the "**Company**") for the year ended 31 December 2010 (the "**Profit Estimate**") as set out in the sub-section headed "Profit Estimate for the year ended 31 December 2010" in the section headed "Financial Information" in the prospectus of the Company dated 18 January 2011 (the "**Prospectus**").

The Profit Estimate, for which you as the directors of the Company (the "**Directors**") are solely responsible, has been prepared based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the nine months ended 30 September 2010, the unaudited consolidated results of the Group based on management accounts of the Group for the two months ended 30 November 2010 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2010.

We have discussed with you the bases, as set out in part A of Appendix III to the Prospectus, upon which the Profit Estimate has been made. We have also considered, and replied upon, the letter dated 18 January 2011 addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the foregoing and on the bases made by you and the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Estimate, for which you as Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,  
For and on behalf of  
**CMB International Capital Limited**

**Kenny How**  
Managing Director  
Corporate Finance Department

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 30 November 2010 of the properties located in the PRC.*

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong  
香港灣仔港灣道6-8號瑞安中心3111-18室  
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863  
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

18 January 2011

The Directors  
**Baofeng Modern International Holdings Company Limited**  
Huoju Industry Zone  
Jiangnan Town  
Licheng District  
Quanzhou City  
Fujian Province  
The PRC

Dear Sirs,

### **INSTRUCTIONS**

We refer to the instructions from Baofeng Modern International Holdings Company Limited (the “Company”) for us to value the properties held or leased by the Company and / or its subsidiaries (together referred to as the “Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have performed inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such properties as at 30 November 2010 (the “date of valuation”).

### **BASIS OF VALUATION**

Our valuations of the concerned properties have been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### **PROPERTY CATEGORIZATION**

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:-

- Group I — Property partly held for owner-occupation and partly held for investment by the Group in the PRC
- Group II — Property held for future development by the Group in the PRC
- Group III — Property leased by the Group in the PRC



**VALUATION METHODOLOGIES**

In valuing the property in Group I, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement”. This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the market and is subject to adequate profitability of the business compared to the value of the total assets employed. Where appropriate, we have also adopted the Investment Approach by taking into account the net rental income with due allowance for reversionary potential value of the property.

For the property in Group II, we have valued it on market basis by the Comparison Approach assuming sale with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of all relevant factors.

We have attributed no commercial value to the property in Group III which is leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

**TITLE INVESTIGATION**

We have been provided with copies of title documents / tenancy information and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice and information given by the Group’s PRC legal advisor — Jingtian & Gongcheng regarding the title of the properties located in the PRC. All documents have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the properties are sold in the market in their existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement of any other similar arrangement which might serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties, we have relied on the advice given by the Group that the Group has valid and enforceable title to the properties which are freely transferable, and have free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium/ purchase consideration payable have been fully settled.

### **VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site / floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site / floor areas in respect of the properties but have assumed that the site / floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**REMARKS**

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,  
For and on behalf of  
**BMI APPRAISALS LIMITED**

<b>Dr. Tony C. H. Cheng</b> <i>BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ), MHKIS, MCI Arb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE</i> <b>Managing Director</b>	<b>Joannau W. F. Chan</b> <i>BSc., MSc., MRICS, MHKIS, RPS(GP)</i> <b>Senior Director</b>
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*Notes:*

*Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and the People's Republic of China.*

*Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and over 12 years' experience in valuations of properties in the People's Republic of China.*

## SUMMARY OF VALUES

No. Property	Market Value in existing state as at 30 November 2010 RMB
<b><i>Group I — Property partly held for owner-occupation and partly held for investment by the Group in the PRC</i></b>	
1. An industrial complex located at Huoju Industrial Zone, Jiangnan Street, Licheng District, Quanzhou City, Fujian Province, The PRC	52,100,000
<b>Sub-total:</b>	<u>52,100,000</u>
<b><i>Group II — Property held for future development by the Group in the PRC</i></b>	
2. A parcel of land located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, The PRC	25,500,000
<b>Sub-total:</b>	<u>25,500,000</u>
<b><i>Group III — Property leased by the Group in the PRC</i></b>	
3. 15 buildings located at Jiangnan High-Tech Asset Zone, Licheng District, Quanzhou City, Fujian Province, The PRC	No Commercial Value
<b>Sub-total:</b>	<u>Nil</u>
<b>Grand-total:</b>	<u><u>77,600,000</u></u>

## VALUATION CERTIFICATE

**Group I — Property partly held for owner-occupation and partly held for investment by the Group in the PRC**

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 RMB
1.	An industrial complex located at Huoju Industrial Zone, Jiangnan Street, Licheng District, Quanzhou City, Fujian Province, The PRC	<p>The property comprises a land parcel with a site area of approximately 18,822.2 sq.m. and 7 buildings and various ancillary structures completed in various stages between 2002 and 2009 erected thereon.</p> <p>The total gross floor area (“GFA”) of the buildings is approximately 51,497.79 sq.m.</p> <p>The buildings mainly include warehouses, factories and dormitories.</p> <p>The structures mainly include roads, walls and a gate.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 18 December 2058 for industrial use.</p>	<p>The property is partly occupied by the Group for industrial purpose and partly leased to various third parties at a total monthly rent of RMB13,100 exclusive of all relevant outgoings.</p>	52,100,000

*Notes:*

- Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights of the property with a site area of approximately 18,822.2 sq.m. were contracted to be granted to Quanzhou Baofeng Shoes Co., Ltd. (泉州寶峰鞋業有限公司) (“Quanzhou Baofeng”) at a land premium of RMB2,748,041 for a term of 50 years for industrial use.
- Pursuant to a State-owned Land Use Rights Certificate, Quan Guo Yong (2009) Di No. 100270 dated 20 December 2009, the land use rights of the property with a site area of approximately 18,822.2 sq.m. have been granted to Quanzhou Baofeng for a term expiring on 18 December 2058 for industrial use.

3. Pursuant to 6 Building Ownership Certificates, the building ownership rights of 6 buildings with a total GFA of approximately 51,467.79 sq.m. are legally owned by Quanzhou Baofeng. The detail of which are summarized in the table below:

No.	Certificate No.	GFA (sq.m.)
1.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 43776	22,342.26
2.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 43777	12,705.83
3.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 43778	911.25
4.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 43779	3,245.07
5.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 43780	5,768.54
6.	Quan Fang Quan Zheng Li Chen Qu (Li) Zi Di No. 200900203	6,494.84
<b>Total:</b>		<b><u>51,467.79</u></b>

4. For the remaining building with a GFA of approximately 30 sq.m., we have not been provided with any title certificates.

5. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Grant Contract	Yes
State-owned Land Use Rights Certificate	Yes
Building Ownership Certificates	Yes (except the building stated in Note 4)

6. In the valuation of this property, we have attributed no commercial value to the building stated in Note 4 as relevant title certificates of the building have not been obtained. However, for your reference purposes, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be in the sum of approximately RMB20,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.

7. Pursuant to 4 Tenancy Agreements, portions of the property with a total GFA of approximately 397 sq.m. were leased to various independent third parties at a total monthly rent of RMB13,100 exclusive of all relevant outgoings with the latest expiry date on 14 June 2013.

8. The opinion given by the PRC legal advisor — Jingtian & Gongcheng to the Group is as follows:

- a. The land use rights and the building ownership rights of the property (except the building stated in Note 4) are legally vested in Quanzhou Baofeng;
- b. Quanzhou Baofeng has the rights to legally occupy, use, transfer, lease and mortgage the property (except the building stated in Note 4);
- c. The Tenancy Agreements stated in Note 7 are legal and valid and have been registered; and
- d. For the building without title certificates, Quanzhou Baofeng may be subject to a risk of fine at 5% to 10% of the construction cost and 2% to 4% of the contractual price for the construction project and the building may be ordered to demolish.

9. Quanzhou Baofeng is a wholly-owned subsidiary of the Company.

## VALUATION CERTIFICATE

*Group II — Property held for future development by the Group in the PRC*

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 RMB
2.	A parcel of land located at Jiangnan High-Tech Electronic Information Asset Zone, Licheng District, Quanzhou City, Fujian Province, The PRC	<p>The property comprises a land parcel with a site area of approximately 36,581.5 sq.m.</p> <p>According to the Group, the property will be developed into an industrial complex with a proposed gross floor area of approximately 77,000 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 30 August 2057 for industrial use.</p>	The property is vacant.	25,500,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 30 June 2007, the land use rights of the property with a site area of approximately 36,581.5 sq.m. were contracted to be granted to Quanzhou Baofeng Shoes Co., Ltd. (泉州寶峰鞋業有限公司) (“Quanzhou Baofeng”) at a land premium of RMB5,377,481 for a term of 50 years for industrial use.
2. Pursuant to a State-owned Land Use Rights Certificate, Quan Guo Yong (2010) Di No. 100067 dated 18 June 2010, the land use rights of the property with a site area of approximately 36,581.5 sq.m. have been granted to Quanzhou Baofeng for a term expiring on 30 August 2057 for industrial use.
3. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Grant Contract	Yes
State-owned Land Use Rights Certificate	Yes
4. The opinion given by the PRC legal advisor — Jingtian & Gongcheng to the Group is as follows:
  - a. Quanzhou Baofeng has obtained the land use rights of the property; and
  - b. Quanzhou Baofeng has the rights to legally occupy, use, transfer, lease and mortgage the property.
5. Quanzhou Baofeng is a wholly-owned subsidiary of the Company.

## VALUATION CERTIFICATE

*Group III — Property leased by the Group in the PRC*

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 RMB
3.	15 buildings located at Jiangnan High-Tech Asset Zone, Licheng District, Quanzhou City, Fujian Province, The PRC	<p>The property comprises 15 buildings completed in 2005.</p> <p>The total gross floor area (“GFA”) of the property is approximately 32,210 sq.m.</p> <p>The buildings mainly include warehouses, factories and a dormitory.</p> <p>Pursuant to a Lease Contract, the property is leased to Quanzhou Baofeng at an annual rent of RMB4,957,500 for a term of 3 years expiring on 30 June 2012.</p>	The property is occupied by the Group for workshop and warehouse purposes.	No Commercial Value

*Notes:*

1. Pursuant to the aforesaid Lease Contract, entered into between Quanzhou Baofeng Shoes Co., Ltd. (泉州寶峰鞋業有限公司) (“Quanzhou Baofeng”) and an independent third party, the property is leased to Quanzhou Baofeng for warehouse use at an annual rent of RMB4,957,500 for a term of 3 years expiring on 30 June 2012.
2. Pursuant to a Certificate issued by the lessor of the property dated 22 April 2010, the lessor guarantees that all the losses in relation to the absence of title of the property would be fully indemnified by the lessor.
3. The opinion given by the PRC legal advisor — Jingtian & Gongcheng to the Group is as follows:
  - a. The lessor of the property has not obtained the relevant construction permits or title certificates of the property. Thus, the Lease Contract may be invalid; and
  - b. The Lease Contract may not be legally valid and binding on the contracting parties.
4. Quanzhou Baofeng is a wholly-owned subsidiary of the Company.



Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 March 2008 under the Companies Law. The Memorandum and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that we shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter the Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 8 January 2011. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Group. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with our Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company

in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Group;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Group for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Group and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the Board (unless an alternate Director appointed by him attends) for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a Director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and

future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) *Proceedings of the Board*

The Board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

**(c) Alteration of capital**

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in



the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)).

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the Board.

**(h) Accounts and audit**

The Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorized by the Board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the Directors and the auditors;
- (cc) the election of Directors in place of those retiring;

- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the Directors to repurchase securities of our Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for our Company to purchase its own shares**

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company**

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared on the our share capital, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that Shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and we shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

**(n) Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority Shareholders in relation to fraud or oppression. However, certain remedies are available to our Shareholders under Cayman law, as summarised in paragraph 3(f) of this Appendix.



**(s) Procedures on liquidation**

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst our members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engage in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, our subsidiaries, our holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, our subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member

of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought

in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 25 March 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends

its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Company Law as an exempted company with limited liability on 6 March 2008. We have established a place of business at 25/F, Tern Centre Tower 1, 237 Queen's Road Central, Hong Kong and was registered in Hong Kong as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 13 December 2010. Au Wai Keung of Flat A, 15/F, Block 3, Sun Yuen Long Centre, Yuen Long, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company at the above address.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum and articles of association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Cayman Company Law is set out in the section headed "Summary of the Constitution of Our Company and Cayman Company Law" in Appendix V to this prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation on 6 March 2008, the authorised share capital of our Company was US\$50,000 divided into 5,000,000 ordinary shares of US\$0.01 each. On the same date, one share of US\$0.01 of our Company was allotted and issued nil-paid to Ian Ashman.
- (b) On 10 March 2008, Ian Ashman transferred to Mr. Sze the one issued and nil-paid Share in our Company for nil consideration.
- (c) On 7 April 2008, nil-paid 35,989 Shares, nil-paid 17,515 Shares, nil-paid 28,980 Shares and nil-paid 17,515 Shares were allotted and issued to Mr. Sze, Mr. Tsang, Zheng Guozhang and Chen Qingwei, respectively.
- (d) On 21 July 2008, Mr. Sze, Zheng Guozhang and Chen Qingwei transferred their respective interest in our Company (which amounted to 82,485 Shares in total) to Best Mark for nil consideration. Mr. Tsang transferred 10,195 Shares in our Company to Fortune Best for nil consideration and the remaining 7,320 Shares in our Company to Capital Vision for nil consideration.
- (e) On 22 September 2008, our Company allotted and issued one redeemable preference share of US\$0.01 to CITIC Capital for a consideration of US\$0.01. As at the date of allotment, the authorised share capital of our Company was US\$50,000 divided into 4,999,999 redeemable ordinary shares of US\$0.01 each and one redeemable preference share of US\$0.01 each.

- (f) On 30 June 2010, our Company, Best Mark and Mr. Sze entered into a share subscription agreement, pursuant to which our Company issued 816 Shares to Best Mark in consideration for Mr. Sze assigning all his rights to and in a loan of HK\$10,000,000 owed to him by Baof HK to our Company.
- (g) On 21 December 2010, our Company, Best Mark and Mr. Sze entered into a share subscription agreement, pursuant to which our Company issued 1,903 Shares to Best Mark in consideration for Mr. Sze assigning all his rights to and in a loan of HK\$15,000,000 owed to him by Baof HK to our Company.

Conditional upon exchange of the 2008 Exchangeable Note, the one redeemable preference share beneficially owned by CITIC Capital as at the date of this prospectus will be redeemed at its par value of US\$0.01.

Immediately following completion of the Global Offering, the redemption of the redeemable preference share of our Company and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised, the authorised share capital of our Company will be US\$50,000,000 divided into 5,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 4,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option and the general mandate to issue Shares referred to in the sub-section headed "Further Information about our Company — 3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011" in this Appendix, our Directors do not have any present intention to issue any of the authorised but unissued Share in our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since incorporation.

### **3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011**

Pursuant to the written resolutions of all Shareholders entitled to vote at general meetings of our Company, which were passed on 8 January 2011,

- (a) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements, among others:
  - (i) our Company approved and adopted the Articles of Association;

- (ii) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to approve, allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;
  - (iii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committees thereof established by the Board were authorised, at their sole discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of options granted under the Share Option Scheme and to take such action as they consider necessary, expedient or desirable to implement the Share Option Scheme;
- (b) conditional on the share premium account of our Company being credited as a result of the issue of Offer Shares, the sum of US\$7,498,972.81 be capitalised and be applied in paying up in full at par 749,897,281 Shares for allotment and issue to the Shareholders whose names will be on the register of members of our Company as at 8:00 a.m. on 28 January 2011 and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (c) the authorised share capital of our Company of US\$50,000 divided into 4,999,999 redeemable ordinary shares of a nominal or par value of US\$0.01 and one redeemable preference share of a nominal or par value of US\$0.01 be redesignated into 4,999,999 shares of nominal or par value of US\$0.01 each and one redeemable preference share of a nominal or par value of US\$0.01 each, and that the issued 102,719 redeemable ordinary shares of a nominal or par value of US\$0.01 each be redesignated as 102,719 shares of a nominal or par value of US\$0.01;
- (d) following the redesignation, the authorised share capital be increased from US\$50,000 to US\$50,000,000 divided into 4,999,999,999 Shares and one redeemable preference share of a nominal or par value of US\$0.01 by the creation of 4,995,000,000 Shares, which shall rank *pari passu* in all respects with the Shares in issue as at the date of the resolution provided that the one redeemable preference share of a nominal or par value of US\$0.01 in the authorised share capital shall be redesignated as a Share upon redemption of the one issued redeemable preference share;
- (e) a general unconditional mandate was given to our Directors to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a Rights Issue or the exercise of any subscription rights under the Share Option Scheme or any scrip dividend scheme or similar arrangements, any

adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by the shareholders in general meeting) with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering; and
- (ii) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any);

For the purpose of this paragraph, "Rights Issue" means an offer of Shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by our Directors to holders of Shares in our Company on the register on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (f) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue or to be issued immediately following the completion of the Global Offering and Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- (g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering); and

Each of the general mandates referred to in paragraphs (e), (f) and (g) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in general meeting, either unconditionally or subject to conditions;

- (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

#### 4. Reorganisation

In order to streamline the corporate structure and rationalise our corporate structure for the Listing, our Group underwent the Reorganisation. Please see the sub-section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus for details.

#### 5. Changes in share capital of the subsidiaries of our Company

Save as mentioned in the sub-section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus, there have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

#### 6. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

##### (a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

##### (i) Shareholders’ approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of our Company passed on 8 January 2011 by all our Shareholders, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue or to be issued immediately following the completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option), details of which have been described above in the sub-section headed “Further Information about our Company — 3. Written resolutions of all the Shareholders of our Company passed on 8 January 2011” in this Appendix.

(ii) *Source of funds*

Any repurchases of Shares by our Company must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Cayman Company Law. We are not permitted to repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by our Company must be fully-paid up.

**(b) *Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from our Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

**(c) *Funding of repurchases***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

**(d) *General***

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Company has not made any repurchases of our own securities in the past six months.

No connected person has notified our Company that he/she has a present intention to sell any Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share subscription agreement dated 30 June 2010 entered into by Best Mark, our Company, Baof HK and Mr. Sze, pursuant to which our Company issued 816 Shares to Best Mark in consideration for Mr. Sze assigning all his rights to and in a loan of HK\$10,000,000 owed to him by Baof HK to our Company;
- (b) a restructuring deed dated 28 September 2010 entered into among CITIC Capital, our Company, Baof HK, Quanzhou Baofeng, Best Mark, Fortune Best, Capital Vision, Active Logic, Joy Wise, Mr. Sze, Zheng Guozhang, Chen Qingwei and Ms. Chan Sau Fong (collectively, the "**Restructuring Deed Parties**"), pursuant to which the Restructuring Deed Parties relieved our Company from certain obligations, liabilities and covenants in relation to the Note Agreement, the 2008 Exchangeable Note, the Shareholders' Agreement and the Option Deed, in connection with the preparation of the initial public offering of the Shares of our Company, on the terms and conditions of such deed;
- (c) a share subscription agreement dated 21 December 2010 entered into by Best Mark, our Company, Baof HK and Mr. Sze, pursuant to which our Company issued 1,903 Shares to Best Mark in consideration for Mr. Sze assigning all his rights to and in a loan of HK\$15,000,000 owed to him by Baof HK to our Company;

- (d) a deed of loan assignment dated 21 December 2010 entered into by Best Mark, our Company, Baof HK and Mr. Sze, pursuant to which Mr. Sze assigned all his rights to and in a loan of HK\$15,000,000 owed to him by Baof HK to our Company in relation to the issue of Shares pursuant to the share subscription agreement as described in paragraph (c) above;
- (e) an amending deed to the restructuring deed dated 31 December 2010 entered into among the Restructuring Deed Parties, pursuant to which the restructuring deed described in paragraph (b) above was amended and supplemented;
- (f) a deed of loan assignment dated 8 January 2011 entered into by Best Mark, our Company, Baof HK and Mr. Sze, pursuant to which Mr. Sze assigned all his rights to and in a loan of HK\$10,000,000 owed to him by Baof HK to our Company in relation to the issue of Shares pursuant to the share subscription agreement as described in paragraph (a) above;
- (g) the Deed of Non-competition dated 8 January 2011 entered into by our Controlling Shareholders and our Company pursuant to which, among other things, our Controlling Shareholders have given certain undertakings to our Company as set out in the sub-section headed “Relationship with Controlling Shareholders — Deed of Non-competition” in this prospectus;
- (h) the Deed of Indemnity dated 8 January 2011 entered into between our Controlling Shareholders and our Company (for ourselves and as trustee for each of our subsidiaries), under which our Controlling Shareholders have given certain indemnities in favour of our Group containing, among others, the indemnities referred to in the sub-section headed “Other Information — 1. Deed of Indemnity” in this Appendix;
- (i) a deed of release dated 17 January 2011 entered into by CITIC Capital in favour of our Company in relation to a Charge Over Share dated 22 September 2008 entered into by our Company in favour of CITIC Capital;
- (j) a deed of release dated 17 January 2011 entered into by CITIC Capital in favour of our Company in relation to a Debenture dated 22 September 2008 entered into by our Company in favour of CITIC Capital;
- (k) a deed of release dated 17 January 2011 entered into by CITIC Capital in favour of our Company in relation to a Security Assignment of Debt dated 22 September 2008 entered into by our Company in favour of CITIC Capital;
- (l) an equity pledge termination agreement dated 17 January 2011 entered into by CITIC Capital and Baof HK in relation to an equity pledge agreement dated 22 September 2008 entered into by Baof HK in favour of CITIC Capital;






- (m) a deed of release dated 17 January 2011 entered into by CITIC Capital in favour of Baof HK in relation to a Debenture dated 22 September 2008 entered into by Baof HK in favour of CITIC Capital;
- (n) a deed of release dated 17 January 2011 entered into by CITIC Capital in favour of Baof HK in relation to a Security Assignment of Debt dated 22 September 2008 entered into by Baof HK in favour of CITIC Capital;
- (o) a letter agreement dated 17 January 2011 entered into by CITIC Capital, CMB International, CMBIS and our Company pursuant to which, among other things, CITIC Capital undertook to our Company, CMB International and CMBIS (for itself and on behalf of the other Underwriters) that it shall be subject to certain restrictions in dealing in the Shares in consideration for each of them entering into the Hong Kong Underwriting Agreement; and
- (p) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights of our Group

### Trademarks









As at the Latest Practicable Date, members of our Group have registered the following trademarks:

Trademark	Place of registration	Registration number	Class	Effective period
	PRC	1927051	18	From 14 March 2003 to 13 March 2013
	PRC	1937531	25	From 14 November 2002 to 13 November 2012
	PRC	1958340	35	From 21 December 2002 to 20 December 2012
<b>宝峰</b> BAOFENG	PRC	3415708	25	From 14 February 2005 to 13 February 2015
<b>宝峰</b> BAOFENG	PRC	3882280	25	From 28 March 2007 to 27 March 2017
TL☆JJ	PRC	4258530	25	From 21 May 2008 to 20 May 2018
<b>宝峰</b> BAOFENG	PRC	4438945	26	From 21 September 2008 to 20 September 2018

Trademark	Place of registration	Registration number	Class	Effective period
	PRC	4438946	36	From 21 August 2008 to 20 August 2018
	PRC	4438947	18	From 21 November 2008 to 20 November 2018
	PRC	4489805	25	From 21 December 2008 to 20 December 2018
	PRC	4489806	25	From 28 January 2009 to 27 January 2019
	PRC	4682312	25	From 7 April 2009 to 6 April 2019
宝人	PRC	5777684	18	From 14 December 2009 to 13 December 2019
宝人	PRC	5777689	35	From 14 December 2009 to 13 December 2019
宝人	PRC	5777690	25	From 28 December 2009 to 27 December 2019
彩杖	PRC	5777702	18	From 14 December 2009 to 13 December 2019
	PRC	5777688	35	From 7 April 2010 to 6 April 2020
	PRC	6545602	25	From 21 June 2010 to 20 June 2020
彩拖馆	PRC	6545634	25	From 21 June 2010 to 20 June 2020
	PRC	5777686	35	From 28 June 2010 to 27 June 2020
boree	PRC	6545633	35	From 14 July 2010 to 13 July 2020
彩拖	PRC	6607169	25	From 14 July 2010 to 13 July 2020

Trademark	Place of registration	Registration number	Class	Effective period
	PRC	4967388	25	From 7 December 2009 to 6 December 2019
彩妝	PRC	5208935	25	From 28 July 2009 to 27 July 2019
	PRC	5777683	18	From 21 December 2010 to 20 December 2020
彩拖館	PRC	6545601	35	From 28 December 2010 to 27 December 2020
	PRC	6545603	35	From 28 September 2010 to 27 September 2020
彩拖	PRC	6607170	35	From 28 December 2010 to 27 December 2020
	Designations under the Madrid Agreement and Protocol	705298	25	From 16 December 1998 to 16 December 2018
	Designations under the Madrid Agreement and Protocol	939107	25	From 21 September 2007 to 21 September 2017
 宝人	Hong Kong	300775512	25	From 7 December 2006 to 6 December 2016
boree 天	Hong Kong	301621034	18, 25	From 24 May 2010 to 23 May 2020
baob 宝峰	Hong Kong	301621025	18, 25	From 24 May 2010 to 23 May 2020
 宝人	Macau	N/025803	25	From 20 April 2007 to 20 April 2014
 宝人	Taiwan	01277822	25	From 1 September 2007 to 31 August 2017
 宝人	Malaysia	07008101	25	From 9 May 2007 to 9 May 2017

As at the Latest Practicable Date, members of our Group have applied for registration of the following trademarks:

Trademark	Place of application	Application number	Class	Application date
	PRC	7822906	25	10 November 2009
	PRC	7822917	25	10 November 2009
	PRC	7822925	25	10 November 2009
	PRC	8283028	25	10 May 2010
	PRC	8283053	25	10 May 2010
	PRC	8412025	18	22 June 2010
	PRC	8412043	25	22 June 2010
	PRC	6545632	25	3 February 2008

#### Domain Names

As at the Latest Practicable Date, members of our Group have registered the following domain names:

Domain Name	Registration date	Expiration date
baoren.com	23 July 1998	22 July 2013
baofengshoes.com	27 September 2000	27 September 2012
寶峰.中國	2 September 2003	2 September 2013
寶峰.中國	2 September 2003	2 September 2013
宝峰.中国	2 September 2003	2 September 2013
宝峰.中國	2 September 2003	2 September 2013
寶峰.cn	2 September 2003	2 September 2013
宝峰.cn	2 September 2003	2 September 2013
中国宝峰.com	29 September 2003	29 September 2012
泉州宝峰.com	12 October 2004	12 October 2013

Domain Name	Registration date	Expiration date
泉州宝峰.中国	12 October 2004	12 October 2013
泉州宝峰.中國	12 October 2004	12 October 2013
泉州寶峰.中国	12 October 2004	12 October 2013
泉州寶峰.中國	12 October 2004	12 October 2013
泉州宝峰.cn	12 October 2004	12 October 2013
泉州寶峰.cn	12 October 2004	12 October 2013
baof.com.cn	8 June 2005	8 June 2012
boree.cn	29 September 2005	29 September 2012
宝人彩妆鞋.com	26 June 2007	26 June 2011
彩妆鞋.com	5 July 2007	5 July 2011
宝峰企业.com	28 August 2007	28 August 2011
宝人彩拖.com	3 January 2008	3 January 2012
香港宝峰.com	13 July 2008	13 July 2011
宝人.com	28 August 2008	28 August 2012
宝峰鞋业.中国	20 August 2009	20 August 2012
宝峰集团.com	18 November 2009	18 November 2012
宝峰集团.中国	6 November 2009	6 November 2012
宝峰鞋业.com	8 March 2007	8 March 2013
boree.mobi	29 August 2007	29 August 2012
chinabaofeng.com	23 July 1998	22 July 2012

*通用網址 (Internet keywords\*)*

As at the Latest Practicable Date, members of our Group have registered the following internet keywords:

Internet keywords	Registration date	Expiration date
宝峰	26 October 2004	26 October 2012
寶峰	26 October 2004	26 October 2012
宝人	26 October 2004	26 October 2012
寶人	26 October 2004	26 October 2012
宝峰鞋业	17 August 2005	17 August 2013

Internet keywords	Registration date	Expiration date
寶峰鞋業	17 August 2005	17 August 2013
宝峰拖鞋	25 December 2009	25 December 2014
宝人拖鞋	25 December 2009	25 December 2014

#### Patents

As at the Latest Practicable Date, members of our Group have registered the following patents:

Type	Place of application	Patent number	Expiration date
Utility Model	PRC	ZL 200520104449.9	11 August 2015
Design	PRC	ZL 200630122901.4	5 July 2016
Design	PRC	ZL 200730156812.6	20 May 2017
Utility Model	PRC	ZL 200720154416.4	20 May 2017
Utility Model	PRC	ZL 200720181771.0	22 October 2017
Utility Model	PRC	ZL 200720305560.3	21 November 2017
Design	PRC	ZL 200730156811.1	20 May 2017
Utility Model	PRC	ZL 200820128039.1	14 July 2018
Utility Model	PRC	ZL 200820128040.4	14 July 2018

As at the Latest Practicable Date, members of our Group have applied for registration of the following patents:

Type	Place of application	Application number	Application date
Utility Model	PRC	201020232750.9	13 June 2010
Utility Model	PRC	201020537033.7	17 September 2010

## FURTHER INFORMATION ABOUT OUR PRC SUBSIDIARY

### 1. Quanzhou Baofeng

Nature of the company:	Wholly foreign-owned enterprise
Term of business operation:	From 14 July 1999 to 14 July 2049
Total amount of investment:	RMB262.2 million
Registered capital:	RMB87.4 million
Attributable interest of our Company:	100%
Scope of business:	Manufacturing of various kinds of footwear, shoe materials, apparel and package

**FURTHER INFORMATION ABOUT OUR DIRECTORS****1. Directors' service contracts**

Each of our 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 months notice (other than for one of our non-executive Directors, Cheung Miu, terminated by not less than two months notice) in writing served by either party on the other.

All travelling, accommodation and other out-of-pocket expenses reasonably incurred by our Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

The current basic annual salaries of our Directors are as follows:

<b>Name</b>	<b>Annual Basic Salary</b>
Zheng Liuhe	RMB626,400
Chen Qingwei	RMB626,400
Zhang Aiguo	RMB626,400
Zheng Jingdong	RMB522,000
Sze Ching Bor	HK\$201,600
Cheung Miu	HK\$201,600
Bai Changhong	HK\$201,600
An Na	HK\$201,600
Lee Keung	HK\$201,600

In addition, each of our Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary payable to him.

All service contracts entered into between our Company and our Directors are three years or less in duration, and are determinable by our Company within one year without payment of compensation (other than statutory compensation).

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (which does not expire or which is not determinable by our Company within one year without payment of compensation (other than statutory compensation)).

**2. Directors' remuneration during the Track Record Period**

Our Company's policies concerning remuneration of executive Directors are that (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Company; and (ii) non-cash benefits may be provided to our Directors under their remuneration package.

For each of the three years ended December 31, 2007, 2008 and 2009 and nine months ended 30 September 2010, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Company and our subsidiaries was RMB0.7 million, RMB1.0 million, RMB0.7 million and RMB0.8 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 and the nine months ended 30 September 2010 by our Company to our Directors.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) by our Company for the year ending 31 December 2011 will be approximately RMB3.3 million.

## DISCLOSURE OF INTERESTS

### 1. Disclosure of Interests

*(a) Interests and short positions of our Directors in the share capital of our Company and our associated corporations following the Global Offering and the Capitalisation Issue*

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in the Shares, underlying Shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying shares and debentures of our Company and our associated corporations:

Long positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr. Sze <sup>(1)</sup>	Interest in a controlled corporation	519,035,767	51.90%



*Notes:*

- (1) Mr. Sze is deemed to be interested in the Shares held by Best Mark and Capital Vision. Both Best Mark and Capital Vision are wholly owned by Mr. Sze.

*(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following persons are expected to have interests or short positions in the Shares or underlying shares of our Company which are required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

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

<b>Name</b>	<b>Capacity/Nature of interest</b>	<b>Number of Shares<sup>(7)</sup></b>	<b>Approximate percentage of interest in our Company/ associated corporations</b>
Mr. Sze <sup>(1)</sup>	Interest in controlled corporation	519,035,767 (L)	51.90%
Ms. Tsang Shuk Ping <sup>(2)</sup>	Spousal interest	519,035,767 (L)	51.90%
Best Mark	Beneficial owner	473,876,157 (L)	47.39%
CITIC Capital	Beneficial owner	85,325,500 (L)	8.53%
Multifield International Limited <sup>(3)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Capital Investment Holdings Limited <sup>(4)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Capital Holdings Limited <sup>(5)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
CITIC Group <sup>(6)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
Warlord Investment Corporation <sup>(7)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
China Investment Corporation <sup>(8)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
The Royal Bank of Scotland N.V. <sup>(9)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%
The Royal Bank of Scotland Group plc. <sup>(10)</sup>	Interest in controlled corporation	85,325,500 (L)	8.53%

*Notes:*

- (1) Mr. Sze is deemed to be interested in the Shares held by Best Mark and 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 our Company upon completion of the Global Offering and the Capitalisation Issue, without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.
- (2) Ms. Tsang Shuk Ping, the spouse of Mr. Sze, is deemed to be interested in Mr. Sze's interests in our 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) 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) The Letter "L" denotes the person's long position in the Shares of our Company.

**2. Disclaimers**

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of options under the Share Option Scheme and the Capitalisation Issue), have an interest or a short position in Shares or underlying Shares which would fall

to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company;

- (b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the sub-section headed “Other Information — 11. Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in the sub-section headed “Other Information — 11. Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the sub-section headed “Other Information — 11. Consents of experts” in this Appendix:
  - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their respective associates or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company’s issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

## SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of all the Shareholders passed on 8 January 2011 and adopted by a resolution of the Board on 8 January 2011 (the “**Adoption Date**”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

### 1. Purpose of the Share Option Scheme and eligibility

The purpose of the Share Option Scheme is to give Eligible Persons (as defined below) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

### 2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect upon the following conditions being fulfilled:

- (a) subject to (b) and (c) below, the approval of all the shareholders of our Company for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 100,000,000 Shares to be allotted and issued pursuant to the exercise of the share options (“**Options**”) in accordance with the terms and conditions of the Share Option Scheme; and
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange on the Listing Date.

### 3. Who may join

The Board may, at its absolute discretion, offer Options to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (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.

(the persons referred above are the “**Eligible Persons**”)

#### 4. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “**Scheme Mandate Limit**”) provided that:

- (a) our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules; and
- (b) our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.

Notwithstanding paragraph (a) above, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

#### **5. Maximum entitlement of each participant**

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Shares in issue from time to time. Where any further grant of Options to such Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

#### **6. Offer and grant of Options**

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within ten years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

#### **7. Granting Options to Connected Persons**

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a Substantial Shareholder of our Company or any of their respective associates, such offer must first be approved by our independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a Substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. All Connected Persons of our Company must abstain from voting in favour at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a Substantial Shareholder or an independent non-executive Director, or any of their respective associates.

#### **8. Offer period and number accepted**

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the offer date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option in the manner as set out in the Share Option Scheme. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

**9. Restriction on the time of grant of Options**

The Board shall not offer the grant of an Option to any Eligible Person after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. No Option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of the results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

**10. Minimum holding period, vesting and performance target**

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which needs to be achieved by the grantee before the Option can be exercised.

**11. Amount payable for Options**

The amount payable on acceptance of an Option is HK\$1.

**12. Subscription price**

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;



- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

### 13. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option Period in the manner as set out in the Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of the auditor's certificate pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.
- (d) Subject as hereinafter provided:
  - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
  - (ii) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on

the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

- (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
  
- (iv) if a compromise or arrangement between our Company and the members of our Group or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it despatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
  - (1) the “**Option Period**” (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of ten years from the deemed date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
  
  - (2) the period of two months from the date of such notice; or
  
  - (3) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option.

- (v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules)

prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

#### **14. Ranking of Shares**

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

#### **15. Life of Share Option Scheme**

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years commencing on 8 January 2011, being the date of conditional adoption of the Share Option Scheme by our Shareholders.

#### **16. Lapse of Share Option Scheme**

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the period referred to paragraphs relating to exercise of Option of the Share Option Scheme;
- (c) subject to the period mentioned in the sub-section headed "Share Option Scheme — 13. Exercise of Option" in this Appendix, the date of the commencement of the winding-up of our Company;

- (d) there being an unsatisfied judgement, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts;
- (e) there being circumstances which would entitle any person to take any action, appoint any person, commence proceedings or obtain certain types of orders;
- (f) a bankruptcy order having been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

#### **17. Reorganisation of Capital Structure**

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option(s) so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

#### **18. Cancellation of Options not exercised**

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or one of our subsidiaries.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

#### **19. Termination**

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

#### **20. Transferability**

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

## 21. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting, provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Share Option Scheme); (ii) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantee; and (iii) any alteration to the aforesaid provisions on amendments of the Share Option Scheme.

## OTHER INFORMATION

### 1. Deed of Indemnity

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into a deed of indemnity with our Company (for ourselves and as trustee for each of our subsidiaries) on 8 January 2011 (“**Deed of Indemnity**”) (being the material contract referred to in paragraph (h) of the sub-section headed “Further Information about our Business — 1. Summary of the Material Contracts” in this Appendix) to provide indemnities in respect of, among other matters, certain liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of certain transfers of property (by virtue of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the conditions of the Global Offering are fulfilled or waived in accordance with the terms set forth in the sub-section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus (the “**Relevant Date**”).

Pursuant to the Deed of Indemnity, our Controlling Shareholders have given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, any taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned or accrued or received) on or before the Relevant Date or any event occurring or deemed to occur on or before such date whether alone or in conjunction with any other event whenever occurring.

Our Controlling Shareholders will however, not be liable under the Deed of Indemnity for taxation liability:

- to the extent that provision has been made for such taxation in the audited accounts of any member of our Group or any member of our Group for the Track Record Period;

- falling on any member of our Group in respect of any accounting period commencing on or after 1 October 2010 unless liability for such taxation would not have arisen but for some event entered into by, the Indemnifiers, our Group or any member of our Group (whether alone or in conjunction with some other event whenever occurring) otherwise than in the course of normal day to day trading operations or in the ordinary course of acquiring and disposing of capital assets on or before the Relevant Date; or
- to the extent that such taxation arises or is incurred as a consequence of any change in the law or the interpretation thereof or practice by any relevant authority anywhere having retrospective effect coming into force after the Relevant Date or to the extent that such taxation arises or is increased by an increase in rates of taxation after the Relevant Date (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of anywhere else in the world on the profits of companies for the current or any earlier financial period); or
- to the extent of any provision or reserve made for taxation in the audited accounts of our Group which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to the Deed of Indemnity to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Our Controlling Shareholders have also undertaken to indemnify our Group from and against all claims made against any member of our Group as a direct or indirect result of or in connection with any title defects on ownership of the properties of our Group as set out in the section headed "Property Valuation" in Appendix IV to this prospectus. For more information, please see the sub-section headed "Our Business — Property" in this prospectus.

## **2. Waivers and Exemption**

The SFC has granted a certificate of exemption from strict compliance with the requirements in paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance on the conditions that (i) particulars of the exemption be set forth in this prospectus; and (ii) this prospectus is issued on or before 18 January 2011. The Stock Exchange has also granted to the Company waivers from strict compliance with (a) Rule 4.04(1) of the Listing Rules in relation to the disclosure of financial information of the Group for each of the three financial years immediately preceding the issue of this prospectus on the conditions that (i) the grant of a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance by the SFC; and (ii) the listing of the Shares of the Company on the Stock Exchange shall commence on or before 31 March 2011, which is prior to the expiry of three months after the latest financial year-end; and (b) Rule 8.12 in respect of management presence in Hong Kong. Details of such waivers given by the Stock Exchange and the exemption given by the SFC are set out in the section headed "Waivers from Compliance with the Requirements under the Listing Rules and the Companies Ordinance" of this prospectus.

**3. Litigation**

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

**4. Preliminary Expenses**

Our Company's estimated preliminary expenses were approximately RMB6,500 and are payable by our Company.

**5. Promoter**

There are no promoters of our Company.

**6. Sole Sponsor**

The Sole Sponsor made an application on our Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, Shares to be issued pursuant to Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

**7. No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 September 2010 (being the date to which our Company's latest audited combined financial statements were made up).

**8. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

**9. Miscellaneous**

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;



- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) our Company has no outstanding convertible debt securities.

#### 10. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
CMB International Capital Limited	Licensed under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO)
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	PRC legal advisers to our Company
Conyers Dill & Pearman	Cayman Islands legal advisers to our Company
BMI Appraisals Limited	Independent professional surveyors and valuers

#### 11. Consents of experts

Each of CMB International Capital Limited, Ernst & Young, Jingtian & Gongcheng, Conyers Dill & Pearman and BMI Appraisals Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

## 12. Particulars of the Selling Shareholders

<u>Name</u>	<u>Description</u>	<u>Registered Office</u>	<u>Number of Sale Shares</u>
CITIC Capital <sup>(1)</sup>	Corporation	P.O. Box 1984, 1st Floor, Boundary Hall, Cricket Square, 171 Elgin Avenue, Grand Cayman, KY1-1104	50,000,000
Best Mark <sup>(2)</sup>	Corporation	P.O. Box 3152, Road Town, Tortola, BVI	35,000,000
Fortune Best <sup>(3)</sup>	Corporation	P.O. Box 3152, Road Town, Tortola, BVI	15,000,000

*Notes:*

- (1) CITIC Capital is a company incorporated under the laws of the Cayman Islands and an investment company.
- (2) Best Mark is an investment holding company of Mr. Sze.
- (3) Fortune Best is an investment holding company of Ms. Chan Sau Fong, the spouse of Mr. Tsang.

## 13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the sub-section headed “Statutory and General Information — Other Information — 11. Consents of experts” in Appendix VI to this prospectus, the statement of particulars of the Selling Shareholders, the statement of adjustments to the accountants’ report set out in Appendix I and copies of the material contracts referred to in the sub-section headed “Statutory and General Information — Further Information about our business — 1. Summary of the Material Contracts” in Appendix VI to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 am to 5:00 pm up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum and the Articles of our Company;
- (2) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (3) such audited financial statements as have been prepared for the companies comprising our Group for each of the three years ended 31 December 2009, including the related statement of adjustments;
- (4) the letter received from Ernst & Young on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the letters relating to the profit estimate, the text of which are set out in Appendix III to this prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by BMI Appraisals Limited, the text of which are set out in Appendix IV to this prospectus;
- (7) the material contracts referred to in the sub-section headed “Statutory and General Information — Further Information about our business — 1. Summary of the Material Contracts” of Appendix VI to this prospectus;
- (8) the service contracts with Directors, referred to in the sub-section headed “Statutory and General Information — Further Information about our Directors — 1. Directors’ service contracts” of Appendix VI to this prospectus;

- (9) the written consents referred to in the sub-section headed “Other Information — 11. Consents of experts” of Appendix VI to this prospectus;
- (10) the legal opinions prepared by Jingtian & Gongcheng dated 18 January 2011, our legal adviser as to the PRC law, in respect of certain aspects of our Group and our the property interests;
- (11) the letter prepared by Conyers Dill & Pearman dated 18 January 2011 summarising certain aspects of Cayman company law referred to in Appendix V to this prospectus;
- (12) the Companies Law;
- (13) the rules of the Share Option Scheme; and
- (14) the statement of particulars of the Selling Shareholders.



BAOFENG MODERN INTERNATIONAL HOLDINGS COMPANY LIMITED  
寶峰時尚國際控股有限公司