寶峰時尚

boree

2011
ANNUAL REPORT

宝峰

Baofeng Modern International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code :1121

www.baofengmodern.com

BAOFENG 1121.HK

Corporate Information

BOARD OF DIRECTORS

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

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

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

BOARD COMMITTEES

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

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

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

COMPANY SECRETARY

Mr. AU Wai Keung (CPA, ACA)

AUTHORISED REPRESENTATIVES

Mr. CHEN Qingwei
Mr. AU Wai Keung

STOCK CODE

01121

COMPANY WEBSITE

www.baofengmodern.com

HEAD OFFICE IN THE PRC

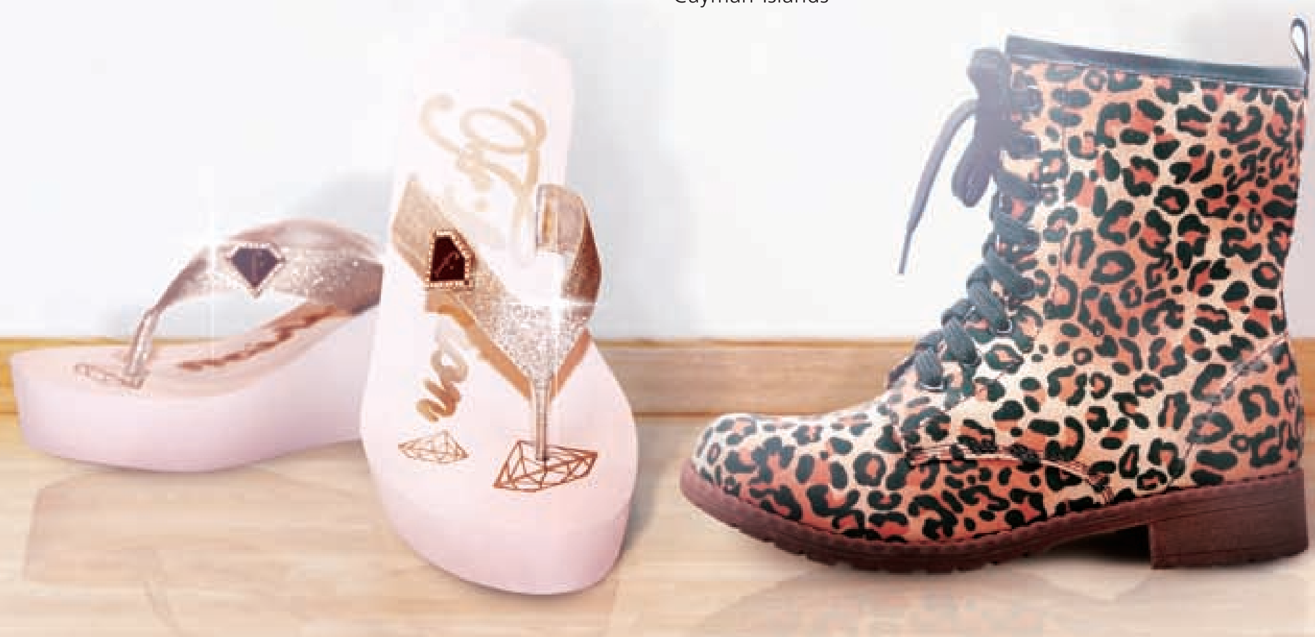
Huoju Industrial Zone
Jiangnan Town
Licheng District
Quanzhou City
Fujian Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20th Floor, The Pemberton
22-26 Bonham Strand
Sheung Wan
Hong Kong

REGISTERED OFFICE

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



Designed & Produced by **HeterMedia Services Limited**

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

AUDITOR

Ernst & Young

LEGAL ADVISER

Orrick, Herrington & Sutcliffe

COMPLIANCE ADVISER

Cinda International Capital Limited

PRINCIPAL BANKERS

Bank of China
China Bank of Construction


boree

Contents

Financial Highlights

Branded Business Revenue expanded to representing **51.0%** *of Total Revenue*

Profit for the Year **+40.8%** *to approximately* **RMB161 million**

Revenue from Boree Products **+77.3%** *to approximately* **RMB402 million**

Revenue from Baofeng Products **+91.8%** *to approximately* **RMB167 million**

	2011 RMB'000	2010 RMB'000	Increase/ (decrease) % Change
Revenue (OEM business)	**548,167**	519,154	5.6%
Revenue (Total)	**1,117,674**	833,268	34.1%
Gross Profit	**373,108**	275,189	35.6%
Shareholders' Equity	**915,928**	306,534	198.8%

Five-Year Financial Summary

For the year ended 31 December

	2011	2010	2009	2008	2007
Profitability data (RMB million)					
Revenue	**1,117.7**	833.3	588.6	499.3	429.3
Gross profit	**373.1**	275.2	165.4	130.6	104.6
Operating profit	**236.6**	159.4	118.8	107.6	81.3
Profit for the year	**160.7**	114.2	70.1	58.2	68.9
Profitability ratios (%)					
Gross profit margin	**33.4%**	33.0%	28.1%	26.2%	24.4%
Operating profit margin	**21.2%**	19.1%	20.2%	21.5%	18.9%
Net profit margin	**14.4%**	13.7%	11.9%	11.7%	16.1%
Operating ratios (as a percentage of revenue) (%)					
Advertising and marketing expenses	**4.5%**	4.6%	2.1%	0.7%	0.6%
Assets and liabilities data (RMB million)					
Non-current assets	**126.9**	83.0	87.6	87.8	43.5
Current assets	**1,288.5**	477.8	342.8	260.2	166.1
Current liabilities	**499.5**	254.3	203.2	194.5	84.9
Non-current liabilities	**0.0**	0.0	3.5	0.0	0.0
Shareholders' equity	**915.9**	306.5	223.6	153.5	124.6
Asset and Working Capital data					
Current asset ratios (%)	**91.0%**	85.2%	79.7%	74.8%	79.3%
Current ratios (time)	**2.6x**	1.9x	1.7x	1.3x	2.0x
Gearing ratios (%)	**34.3%**	36.6%	46.3%	54.8%	40.0%

The summary above does not form part of the audited consolidated financial statements.

Our Distribution Network

Number of Point of Sales increased

↑75%

Eastern Region	:	456
Southern Region	:	142
Western Region	:	121
Northern Region	:	129
Central Region	:	60
Total	**:**	**908**

Future Developments


SpongeBob
SquarePants
boree
寶峰時尚

Chairman's Statement

> Signing contract with NBA

Dear Shareholders,

Amidst the challenging global trading environment in 2011, the Group continued to achieve satisfactory results, mainly due to the excellent performance of own-brand business and steady growth of OEM business. Turnover of the Group for the year amounted to RMB1,117.7 million (2010: RMB833.3 million), representing a year-on-year growth of 34.1%. Profit for the year increased to RMB160.7 million in 2011, representing a year-on-year increase of 40.8% (2010: RMB114.2 million). In particular, the profit from the core operations increased by 53.1% from RMB105.7 million last year to RMB161.9 million in 2011. Such increase was mainly due to the strong performance of our Boree and Baofeng business for the year under review, the proportion of which had been gradually increased. The turnover from these two brands increased from RMB314.1 million in 2010 to RMB569.5 million in 2011, representing an increase of 81.3%, while the turnover from these two brands accounting for over one half (51.0%) of the Group's total revenue, a significant increase as compared with 37.7% in 2010. The number of sales points of Boree and Baofeng products increased from 520 at the end of last year to over 900. From the previous sole OEM footwear manufacturer to brand owner, we will continue the success in business transformation and make full use of the Group's strengths, such as the well-established sales and distribution network, systematic production and distribution management and effective marketing strategies, so as to increase the sales points of Boree and Baofeng products, expand such businesses and maintain our leading position in the fashionable slipper market in China.

On the other hand, revenue from the OEM business amounted to RMB548.2 million for the year, representing a year-on-year increase of 5.6%. Apart from our proactive efforts to secure orders, the Company made relevant adjustment to our foreign trade operation, such as consolidating and enhancing the management system of foreign trade operation to strengthen the basic and core competitiveness of foreign trade, including adjusting sales structure, improving customer management as well as consolidating and enhancing production and service model of foreign trade. In response to the new development of the international trading market, the Company strived to establish the production model of "multiple batches, small volume and quick response" and implement "customer segmentation management and personalized service" to meet the market demand in the future.

The year 2011 was an active year for the Group. We have approached several first tier international famous brands and signed a number of cooperation agreements, for example we have signed a long term cooperation agreement with NBA China and formed strategic alliance with the globally renowned crystal brand Swarovski. We also sponsored "2011 Miss Asia Pageant" hosted by ATV, providing fashionable slippers with Swarovski Elements as the designated slippers for the pageant. In 2011, we practically fulfilled the core business target of "establishing the No.1 fashionable casual footwear brand in China", with a brand image of high quality and fashionable trend leader. Entering into 2012, the Group has signed license agreements with FashionTV, NBA Asia and SpongeBob respectively at the beginning of year. Efforts will be stepped up to pursue our goal of becoming a multi-brand fashion operator.

> Sponsorship to 2011 Miss Asia Pageant

Looking forward, as the branded slipper market in China remains fragmented, it is expected to hold great potential for growth. As we all know, own branded business enjoys a higher gross profit margin than traditional OEM business. Therefore, we will continue to aggressively promote such business by strengthening the brand recognition and expanding distribution network, enhancing product quality and enriching product mix. The Group also plans to further increase the number of its retail outlets and continue to establish flagship shops and showrooms in first-tier cities in China. In overseas market, we will expand our reach into the Southeast Asian countries, such as Philippines, Indonesia, Malaysia and Singapore. Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our management, staff, customers, suppliers, business partners and shareholders for their continuous commitment and support.

> FTV × Boree f. shoes collection launch party

ZHENG Liuhe
Chairman
Hong Kong
29 March 2012


Management Discussion and Analysis
boree
boree

Management Discussion and Analysis

> FTV × Boree f. shoes collection Launch Party

Own branded businesses accounted for **51%** *of* **Total Revenue**

Baofeng Modern Group is a leading brand owner and manufacturer of casual footwear in the PRC. It has two own casual footwear brands – "Boree" and "Baofeng", and is also a footwear manufacturer for international renowned brands. The Group was the largest slippers exporter in terms of both volume and value in 2011, and the largest fashionable slippers supplier in China in 2011 in terms of domestic sales of own-branded fashionable slippers (source: Frost & Sullivan).

Driven by the outstanding business performance of the Company's own branded products, the Group continued to maintain satisfactory growth in both its revenue and profits for the year ended 31 December 2011. The revenue from the branded business increased from RMB314.1 million for the year ended 31 December 2010 to RMB569.5 million for the year ended 31 December 2011. The own branded businesses accounted for more than half of the Group's total turnover, representing 51.0% of the total revenue for the year ended 31 December 2011 (2010: 37.7%).

BUSINESS REVIEW

Boree

The Boree brand offers fashionable sandals, slippers and casual footwear, targeting the medium-to-high end market. Revenue generated from Boree continued to be the Group's key growth driver, increased by 77.3% to RMB402.3 million for the year as compared with that of last year (2010: RMB227.0 million). The Group has a well-established nationwide distribution network that boosted the sales volume of Boree products and increased its market share during the year under review. A flagship store for Boree brand was opened in Beijing in April 2011. To facilitate the brand and the Group's image promotion in Hong Kong, a Boree branded store was opened at Tsim Sha Tsui in September 2011. The Group will continue to establish more flagship stores in other major cities in the PRC.

TST shop grand opening

Baofeng

The Baofeng brand offers traditional slippers with various designs and styles that cater for budget-to-medium market. Revenue generated from Baofeng recorded remarkable growth with an increase of 91.8% from RMB87.1 million in 2010 to RMB167.2 million in 2011.

Distribution Network

During the year, the Group made continuous efforts to expand the distribution network for its own branded products, and it has established extensive presence in China. As of 31 December 2011, the number of sales points of Boree and Baofeng products has increased from 520 at the end of last year to over 900. The sales points are located at specialty stores, concessionary counters, department stores, shopping centers, supermarkets and megastores. The Group will continue to keep close contact with distributors and seek for sales points with high customer traffic so as to increase its turnover.

NBA Branded Products

The Group formed an exclusive three-year partnership with NBA China in May 2011, through which our product lines were further broadened, diversifying into the footwear market for men and children. A line of NBA branded products will be launched in various parts of China, including flipflops, slippers and sandals with features of NBA team logos and mascots, and will be distributed through the Group's distribution network in Mainland China and Hong Kong. Currently, the NBA branded slippers and sandals are available in the Boree store at Tsim Sha Tsui, Hong Kong and receive positive market response. These products also achieved remarkable results at the 2012 Spring and Summer Sales Fair held in November 2011, and the aggregate amount of orders increased by over 10% as compared to the same fair last year. In light of such warm market response to the NBA products, the Group is very confident in these new products.

NBA branded products

Original Equipment Manufacturer ("OEM") Business

During the year under review, OEM business continued to achieve satisfactory results. Revenue generated from the OEM business increased by 5.6% on a year-on-year basis to RMB548.2 million (2010: RMB519.2 million). The Group will continue to maintain good relationship with our existing clients so as to achieve stable growth.

Design Capability

Optimizing Sales and Internal Management and Upgrading Production Facilities and Technology

In order to optimize internal management, the Group has been installing Enterprise Resource Planning ("ERP") System and Distribution Resource Planning ("DRP") System for more and more sales points during the year. With these systems, we can enhance control over supply chain, logistics and sales, quality and inventory monitoring in many ways so as to boost sales growth and develop distribution strategies. The Group aims to enhance production efficiency through effective allocation of internal resources and upgrading existing production facilities and technology to meet the demand of the fast developing slippers and footwear market.

As to product design, apart from the strong in-house design team, the Group also engaged an Italian design house to gain access to knowledge of the latest global fashion trends in footwear.

Sponsorship to 2011 Miss Asia Pageant

Marketing Campaigns

During the year, the Group has launched effective marketing campaigns to further enhance the market recognition of our own brands. While advertising in fashion magazines, both in print and online, we also cooperated with broadcasting media by sponsoring domestic TV programs, including the TV series "Go Into Business" and fashion talk-show "Crazy for Shoes", to connect our products with everyday life through embedded advertisements. Furthermore, given the great success of the first season of "Selection of Baoren Rui Lady", we held the second season of selection in 2011 to enhance the leisure and fashionable image of the Group's brands.

We also cooperated with ATV for the "2011 Miss Asia Pageant" and launched Miss Asia series luxurious footwear with Swarovski crystal elements for the show, providing several types of fashionable footwear with different styles for the Miss Asia contestants which are both modern and complementary to the elegant charm of the contestants. This series of footwear will also be available at Boree branded stores.

FINANCIAL REVIEW

Revenue by Product Category

	2011 RMB'000	2010 RMB'000	Increase/ (decrease) % Change
Revenue (Total)	**1,117,674**	833,268	34.1%
Revenue (Boree Products)	**402,339**	226,971	77.3%
Revenue (Baofeng Products)	**167,168**	87,143	91.8%
Revenue (OEM business)	**548,167**	519,154	5.6%

Total Revenue grew by

+34%

For the year under review, the revenue of the Group increased by 34.1% to RMB1,117.7 million. Revenue from Boree and Baofeng brands increased by 77.3% to RMB402.3 million and 91.8% to RMB167.2 million respectively in the year as compared with those of last year. The growth was mainly attributable to the satisfactory performance of our branded business and the rapid expansion of the Group's distribution networks. The business growth from the OEM business remained stable and the revenue from the OEM business increased by 5.6% to RMB548.2 million for the year as compared with that of last year.

Selling and distribution costs

Selling and distribution costs increased by 24.7% to RMB81.6 million during the year (2010: RMB65.4 million) as compared with that of last year, primarily due to our active advertising and marketing compaigns launched during the year.

General and administrative expenses

General and administrative expenses recorded a year-on-year increase of 71.8% to RMB58.6 million in 2011 (2010: RMB34.1 million), mainly due to the increase in staff cost and professional fees subsequent to the Group's listing, the one-off incentive bonus to staff upon listing, share option expense and the newly imposed city construction tax and education surcharges by the PRC tax bureau since December 2010, of which the Group incurred for the year ended 31 December 2011 was in a sum of RMB8.2 million.

Liquidity and financial resources

During the year of 2011, net cash inflow from operating activities of the Group amounted to RMB135.3 million (2010: RMB176.9 million). As at 31 December 2011, cash and bank balances together with pledged bank deposits were RMB1,076.8 million, representing a net increase of 228.4% as compared with RMB327.9 million as at 31 December 2010. The huge increase was mainly attributable to the net proceeds we raised in relation to our initial public offering in January 2011. The interest-bearing bank borrowings of the Group as at 31 December 2011 was in a sum of RMB383.9 million (31 December 2010: RMB39.6 million). All bank loans were repayable within one year.

Pledge of assets

As at 31 December 2011, the Group secured its bank borrowings by the pledge of the Group's bank deposits amounting to RMB382.0 million. At 31 December 2010, certain of the Group's bank borrowings were secured by the pledge of the Group's trade receivables amounting to RMB33.9 million. During the year ended 31 December 2011, the respective bank borrowings were fully repaid and the pledged trade receivables were released.

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Profit attributable to shareholders

For the year ended 31 December 2011, the total consolidated profit attributable to the owners of the Company amounted to RMB160.7 million, representing an increase of 40.8% in comparison to that of last year (2010: RMB114.2 million). As compared with the financial figures for 2010, there was a significant non-recurring item affecting the net profit of the Group for the year, namely the "finance cost/income from exchangeable note, net".

The details are set out as the following:

Profit from Core Operations grew by

+53%

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**160,699**	114,151
Adjustment for the finance cost/income from exchangeable note, net	**1,210**	(8,431)
Profit from core operations	**161,909**	105,720
Growth	**53.1%**	

Taking into account the above significant non-recurring items, the profit from the core operations for the year was in a sum of RMB161.9 million, representing an increase of 53.1% as compared with that of 2010 (2010: RMB105.7 million).

Foreign exchange risk

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

Gearing ratio

As at 31 December 2011, the gearing ratio of the Group was 34.3% (as at 31 December 2010: 36.6%). Gearing ratio is total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human resources

As of 31 December 2011, the Group had a total of 2,636 employees (as at 31 December 2010: 2,382 employees).

Use of net proceeds from the share offering

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011 with net proceeds received by the Company from the share offering of HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilization of the net proceeds as at 31 December 2011 is set out as follows:

Nature	Amount raised RMB'000	Amount utilized RMB'000
To increase production capacity	135,683	50,898
Marketing and advertising expenses	96,917	45,875
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	2,059
To establish flagship shops and showrooms	19,383	307
To strengthen the distribution resource planning system	19,383	1,210
General working capital	38,767	38,767
Total:	387,666	139,116

Catwalk Shows

FUTURE PROSPECTS

Looking forward, the Group will continue to focus on the development of our "Boree" and "Baofeng" branded business, and further secure our prominence in the casual footwear market in the PRC and establish our market presence in the Southeast Asian market through our five key business strategies. We will continue to 1) enhance and expand the brand awareness of our branded products with a brand image of fashionable and leisure style; 2) enrich our brand categories and increase market share through branding diversification to pursue the goal of becoming a multi-brand operator; 3) strengthen products research and development to improve product quality; 4) explore the international market of branded business and enhance the management system for domestic branded business; and 5) keep optimizing sales and internal management and upgrading production facilities and technology.

Firstly, we will increase our brand marketing and advertising efforts by designing integrated brand communications and media advertisement plan, for example, to place advertisements on national media and key areas with a focus on television and online media. The Group will strengthen our strategic collaboration with fashion media to promote the fashionable features of our own brands to the targeted customer group.

Meanwhile, the Group will continue to explore opportunities to cooperate with other international and domestic famous brands so as to enhance our brand image. In doing so, we can also enrich our brand categories and increase market share through branding diversification, so as to pursue our goal of becoming a multi-brand operator. In November 2011, the Group has formed strategic alliance with Swarovski (Guangzhou) Trading Co., Ltd., the global renowned prime crystal supplier, whereby the Group has the rights to use the logo "Swarovski Elements" in our products for free for a term of two years. The Group has launched the "Miss Asia" series of footwear which bear the Swarovski crystal elements, we believe that the Swarovski Elements series of products will enable the Group to further penetrate into the medium-to-high end market.

In February 2012, the Group has announced the formation of strategic alliance with NBA Asia and SpongeBob to become their partners. Besides Mainland China, Hong Kong and Macau, the Group was also authorized to use the NBA logo, names, logos and mascots of NBA teams on its products in most countries in Asia. The Group was also licensed to possess and use the right of publicity of the relevant animated cartoon characters and elements of SpongeBob (an American animated television series), such as the copy rights and trademark rights. The alliance with NBA Asia will help the Group to expand our market presence in Southeast Asia and diversity into the markets for men while the alliance with SpongeBob will help the Group to diversify into the children market, as well as to enhance the market image of the Group.

In addition, the Group has also commenced a cooperation with FashionTV, a leading international television channel dedicated to the world of fashion and lifestyle, which grants to the Group, within the territory comprising of multiple Asian countries including Mainland China, a license to manufacture and distribute "FashionTV" branded slippers, flip-flops, sandals and other casual footwear. FashionTV also committed to a promotional campaign presenting the licensed products on the FashionTV Channel, which can be viewed by over 300 million people in 192 countries across the world. This cooperation will help to enhance the reputation of the Group into the global market and further diversify our income stream.

Furthermore, in face of growing competition in foreign trade business, the Group will commence to conduct our branded business in overseas markets such as Southeast Asia to maintain and enhance our profitability in the international market. In 2012, the Group plans to initiate the operation and development plan for our own-branded and licensed brand business in the Southeast Asian markets such as Philippines, Indonesia, Malaysia and Singapore. The Group is negotiating with local distributors with rich experiences and established network, in a bid to reach agreements with these distributors as soon as possible to create a new revenue stream for the Group.

Lastly, in response to the rapid growth of the Group, we plan to carry out overall upgrade of our existing production facilities and technology. This is expected to enhance our production efficiency to cope with the fast evolving domestic business environment and continue to strengthen our production management. The Group will stick to these business strategies to create more value for our shareholders.

Corporate Governance Report

> *1st Listing Anniversary Luncheon*

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value.

The Company complied with the code provisions under the Code on Corporate Governance Practices (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") so far as they are applicable and a majority of the recommended best practices under the CG Code throughout the year ended 31 December 2011.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the required standard for securities transactions by the Directors. The Company made specific enquiry of all the Directors who confirmed that they have complied with the required standards set out in the Model Code throughout the year under review.

Board of Directors

The Board members are:

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

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

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

The biographical details of the Directors and other senior management are disclosed in the section headed "Directors and Senior Management" on pages 28 to 31. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive experiences that may contribute to the business of the Group. The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules during the Review Period. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

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

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

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

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

	Number of board meetings Attended/held in 2011	Attendance rate
Executive Directors		
Mr. ZHENG Liuhe	4/4	100%
Mr. ZHANG Aiguo	4/4	100%
Mr. CHEN Qingwei	4/4	100%
Mr. ZHENG Jingdong	3/4	75%
Non-executive Directors		
Mr. SZE Ching Bor	4/4	100%
Mr. CHEUNG Miu	4/4	100%
Independent Non-executive Directors		
Professor BAI Changhong	2/4	50%
Mr. LEE Keung	4/4	100%
Ms. AN Na	3/4	75%

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

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

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

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

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers the independent non-executive Directors to be independent.

Appointments, Re-election and removal of Directors

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

Audit committee

An audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises the three independent non-executive Directors, namely Mr. LEE Keung, Professor BAI Changhong and Ms. AN Na. Mr. LEE Keung is the chairperson of the audit committee. The annual results of the Group for year ended 31 December 2011 have been reviewed by the audit committee.

The audit committee held two meetings during the year. Details of the attendance of the audit committee at the two meetings are as follow:

Mr. LEE Keung	2/2
Ms. AN Na	2/2
Professor BAI Changhong	1/2

Remuneration committee

The board of Directors established the remuneration committee on 8 January 2011 with written terms of reference in compliance with the CG Code. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The remuneration committee comprises the three independent non-executive Directors, namely Ms. AN Na, Mr. LEE Keung and Professor BAI Changhong. Ms. AN Na is the chairperson of the remuneration committee. The remuneration committee held one meeting during the year, which was attended by all members.

Nomination Committee

On 8 January 2011, the Board of Directors established the nomination committee with written terms of reference in compliance with the CG Code. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of Directors. The nomination committee comprises the three independent non-executive Directors, namely Professor BAI Changhong, Ms. AN Na and Mr. LEE Keung. Professor BAI is the chairperson of the nomination committee. The nomination committee held one meeting during the year, which was attended by all members.

Directors' Responsibility for the Financial Statements

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

Compliance Adviser

For the purpose of and in compliance with Rule 3A.19 of the Listing Rules, the Company has appointed CMB International Capital Limited as its compliance adviser for the period commenced from the date of listing to 14 July 2011 and then appointed Cinda International Capital Limited as its compliance advisor for the period from 15 July 2011 and end on the date on which the Company complies with Rule 13.46 of Listing Rules in respect of the financial results for the first full financial year commencing after Listing.

Internal Control

The Board is responsible for the internal controls of the Group and reviewing their effectiveness. The Board acknowledges that the objectives of internal control are to safeguard the Company's assets against unauthorised use or disposition and to ensure that the Company's accounting records are properly maintained and all the financial information is accurate and reliable.

The Company has established its own internal audit department for reviewing the effectiveness of the Group's internal control system. The Group's internal control system has been reported by its internal audit department to members of the Audit Committee frequently and has been reviewed annually by the Board to ensure the internal control system remain practical, sound and effective.

The Board reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget during the year and considered that the Group had adequate staff resources with the competence, qualifications and experience necessary for the effective performance of its accounting and financial reporting function.

Auditors' Remuneration

During the Year, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Ernst & Young, were RMB1,977,000 (2010: RMB1,846,000) and RMB488,000 (2010: RMB4,387,000), respectively.

Communication with shareholders

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

Further, the Company has engaged a professional public relations consultancy firm to organize various investor relations programs aiming at increasing the transparency of the Company, enhancing communication with shareholders and investors, increasing their understanding of and confidence in the Group's businesses. It also aims at promoting market recognition of and support to the Company. The Company recognises the importance of maintaining on-going communications with its shareholders and encourages them to attend shareholders' meetings to stay informed of the Group's businesses and convey any concerns they may have to the Directors and senior management.

Directors And Senior Management

Executive Directors

Mr. ZHENG Liuhe （鄭六和先生）

Mr. ZHENG, aged 74, is the Chairman and an executive Director of the Company. He is primarily responsible for the overall strategic planning and development of our Group. He has been a Director since 21 July 2008. Mr. Zheng Liuhe has more than 10 years of experience in the slipper business in the PRC. He joined our Group in January 2000 as vice-general manager and has been the chairman of the board of Quanzhou Baofeng Shoes Co Ltd ("Quanzhou Baofeng"), an indirectly-owned subsidiary of the Company, since 28 March 2007. He has also been a director of Baof International Limited ("Baof HK"), a wholly-owned subsidiary of the Company, since 21 July 2008. Prior to joining our Group, Mr. Zheng Liuhe was the chairman of 泉州誠意旅遊用品有限公司 (Chengyi Travel Products Co., Ltd. Quanzhou) (formerly known as 泉州寶峰旅遊用品有限公司 (Quanzhou Baofeng Travel Products Co., Ltd.) ("Quanzhou Travel")) from 1990 to 1999, which was engaged in manufacturing plastic slippers and travel hats. He was the chief of the production section of 泉州鯉城區經濟委員會 (Economic and Trade Commission of Licheng District, Quanzhou City) from 1987 to 1990. He worked in the production section of 晉江第二輕工業局 (Jinjiang Second Light Industry Bureau) (now known as 泉州市城鎮集體工業聯合社 (Quanzhou Urban Collective Industrial Community)) from 1962 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.

Mr. ZHANG Aiguo （張愛國先生）

Mr. Zhang, aged 54, vice-chairman and an executive Director, is primarily responsible for the financial management and human resources management of our Group. Mr. Zhang has been a director since 21 July 2008. Mr. Zhang has more than 10 years of experience in the slipper business in the PRC. He has been a vice-general manager of Quanzhou Baofeng since 2000 and is responsible for financial management of our Group. He was appointed as the vice-chairman of the board of Quanzhou Baofeng on 28 March 2007 and as a director of Baof HK on 21 July 2008. Prior to joining our Group, he was a vice-general manager of Quanzhou Travel from 1989 to 1999.

Mr. CHEN Qingwei （陳慶偉先生）

Mr. Chen, aged 57, our chief executive officer and an executive Director, is primarily responsible for the overall operational management of our Group. He has been a director since 10 March 2008. Mr. Chen has more than 10 years of experience in the slipper business in the PRC. He was the vice-general manager of Quanzhou Baofeng from 2000 to 2006 and was responsible for the production management of our Group. He has been appointed as the vice-chairman of the board of Quanzhou Baofeng since 28 March 2007 and has been responsible for the management of the production and domestic sales division of Quanzhou Baofeng since 2006. He was appointed as a director of Baof HK on 21 July 2008. Prior to joining our Group in 2000, Mr. Chen was a vice-general manager of Quanzhou Travel from 1994 to 1999. He was appointed various posts such as a chief of the production workshop, supervisor, business controller and deputy factory manager in 福建省泉州市第一皮件廠 (First Leather Factory of Quanzhou City, Fujian Province) from 1978 to 1993. Mr. Chen obtained a master's degree in Business Administration (International) from Edith Cowan University in 2009.

Mr. ZHENG Jingdong （鄭景東先生）

Mr. Zheng Jingdong, aged 46, 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 Ching Bor, a non-executive Director and a controlling shareholder.

Non-executive Directors

Mr. SZE Ching Bor （史清波先生）

Mr. Sze, aged 64, is the founder of our Group and a non-executive Director. He was appointed as a Director on 10 March 2008 and resigned on 21 July 2008. On 30 June 2010, he was appointed as a non-executive Director and responsible for the corporate strategies, planning and business development of our Group. Mr. Sze has become a director of Quanzhou Baofeng since 28 March 2007 and was appointed as a director of Baof HK on 8 January 2008. Mr. Sze is a relative of Mr. Zheng Jingdong, an executive Director.

Mr. CHEUNG Miu （張渺先生）

Mr. Cheung, aged 42, a non-executive Director, has been a Director of the Company and director of Baof HK since 22 September 2008. He has more than 15 years of experience in investment, banking and business development. Mr. Cheung is currently a senior managing director of CITIC Capital Holdings Limited. He obtained a master's degree in Business Administration from University of New South Wales in 1998 and a bachelor's degree in Business Administration from The Chinese University of Hong Kong in 1992.

Independent non-executive Directors

Professor BAI Changhong （白長虹教授）

Professor Bai, aged 46, was appointed as an independent non-executive Director on 30 June 2010. Professor Bai has been the dean of 旅遊與服務學院 (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）

Mr. Lee, aged 43, was appointed as an independent non-executive Director on 30 June 2010. He has more than 15 years of experience in the accounting and audit fields. Mr. Lee has been an executive director and a general manager of a PRC company, which sells jewellery and electronic products, since its incorporation on 23 June 2009. From 1995 to 2009, Mr. Lee served as an accountant, a financial controller, a general manager and a key project member in a PRC trading company, which imports, exports and sells products and offers services to the medical field. He is a member of the Australian Society of Certified Practising Accountants. Mr. Lee obtained a master's degree in Business Administration from the China Europe International Business School in 2004 and a bachelor's degree in Commerce from Australian National University in 1992.

Ms. AN Na （安娜女士）

Ms. An Na, aged 52, was appointed as an independent non-executive Director on 30 June 2010. She has been the executive 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》雜志社 (Beijing Rayli Magazine House) since 2003 at which she has been responsible for managing and co-ordinating the publication of several fashion magazines. She received an editor's qualification from 國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission) in 2008. She obtained a bachelor's degree in Engineering with a major in the study of leather from 西北輕工業學院 (Northwest Institute of Light Industry) (now known as 陝西科技大學 (Shaanxi University of Science and Technology)) in 1982.

Senior Management

Mr. KWOK Chun Ching （郭鎮清先生）

Mr. Kwok, aged 44, is the deputy general manager of our Group and is responsible for the corporate finance affairs of our Group. He joined our Group in October 2008 and was appointed as the chief financial officer of our Company in December 2009. 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. 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 on 1 January 1997.

Mr. WONG Wai Ming （黃偉明先生）

Mr. Wong, aged 39, joined our Group in July 2011 and is now the Chief Financial Officer of our Group. He is responsible for the Group's financial and investor relations management. He has over 15 years of experience in accounting and financial management. From 1994 to 2001, he served as a staff accountant and audit manager in two reputable international accounting firms. Then he served as a finance manager, a financial controller and a finance director in Kin Yat Holdings Limited (stock code: 638) from 2001 to 2010. He holds a bachelor degree in Business Administration from The Chinese University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also an independent non-executive director and chairman of the audit committee of Prince Frog International Holdings Limited (stock code: 1259).

Mr. ZHENG Guozhang （鄭郭璋先生）

Mr. Zheng Guozhang, aged 39, is the general manager of the domestic sales division of our Group and is responsible for the development and management of our branded product business. He joined our Group in 2000 as a general manager of the export division and has been the general manager of the domestic sales division of Quanzhou Baofeng since 2006. He has been a director of Quanzhou Baofeng since 28 March 2007. Prior to joining our Group, he was an export division manager of Quanzhou Travel from 1994 to 1999. Mr. Zheng Guozhang is a son of Mr. Zheng Liuhe, the Chairman and an executive Director.

Mr. ZENG Jianbo （曾劍波先生）

Mr. Zeng, aged 46, is the manager of the procurement division of our Group and is responsible for the management of procuring and sourcing of raw materials. He joined our Group in 2000 and has since been a manager of the procurement department of Quanzhou Baofeng. He has been a director of Quanzhou Baofeng since 28 March 2007. Prior to joining our Group, he worked as a manager of the sourcing department of Quanzhou Travel from 1994 to 1999.

Mr. AU Wai Keung （區偉強先生）

Mr. Au, aged 40, joined our Group on 22 May 2010 and is now the Company Secretary of the Company. He holds a bachelor's degree of Social Science from The Chinese University of Hong Kong and a master's degree in Business Administration from City University of Hong Kong. Mr. Au is also an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Report Of The Directors

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year. Details of principal subsidiaries of the Group as of 31 December 2011 are set out in note 17 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 96.

An interim dividend of HK2 cents per ordinary share was paid on 14 October 2011. The Directors recommend the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders on the register of members on 31 May 2012. Details are set out in note 12 to the financial statements.

Summary financial information

A summary of the financial information of the Group for the last five financial years is set out on page 5 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

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

Share capital and share options

Details of movements in the Company's share capital and share options during the year are set out in notes 26 and 27 to the financial statements.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased and cancelled its 4,280,000 shares on the Stock Exchange. The Directors considered that the share repurchases are beneficial to the shareholders of the Company who retain their investments in the Company. Details of the share repurchases are set out below.

Month of repurchase	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Aggregate consideration (excluding transaction cost)
		HK$	HK$	HK$'000
September	2,798,000	1.17	1.00	3,086
October	1,482,000	1.00	0.97	1,459
Total	4,280,000			4,545

Further details of these transactions are set out in note 26 to the financial statements. Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB767,926,000. The amount of RMB767,926,000 includes the Company's share premium account and contributed surplus of RMB743,624,000 in aggregate at 31 December 2011, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Charitable contributions

During the year, the Group made charitable contributions totalling RMB118,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 29.0% of the total sales for the year and sales to the largest customer included therein amounted to 8.0%.

Purchases from the Group's five largest suppliers accounted for 22.3% of the total purchases for the year and purchase from the Group's largest supplier included therein amounted to 7.7% of the total purchases for the year.

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

Directors

The Directors of the Company during the year were:

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

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

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

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

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

As such, Mr. Zheng Liuhe, Mr. Sze Ching Bor and Mr. Cheung Miu will retire from office as directors at the forthcoming annual general meeting and will offer themselves for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers the independent non-executive Directors to be independent.

Directors' and senior management's biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 28 to 31 of the annual report.

Directors' service contracts

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

The details of the remuneration of each of the Directors are revealed on notes 8 to the financial statements.

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

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

Directors' interests in contracts

Saved for transactions as disclosed in note 32 to the financial statements, no Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

Management contracts

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

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

At 31 December 2011, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. Sze Ching Bor	Interest in controlled corporation	519,035,767	52.13%

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

Long positions in share options of the Company:

Name of Director	Capacity and nature of interest	Number of options held	Percentage of the Company's issued share capital
Mr. Chen Qingwei	Beneficial owner	9,000,000	0.90%
Mr. Zheng Jingdong	Beneficial owner	5,500,000	0.55%
Mr. Zhang Aiguo	Beneficial owner	3,000,000	0.30%

Note:
These represent the number of shares which will be allotted and issued to the respective Directors upon the exercise of the share options granted to each of them under a share option scheme adopted on 8 January 2011 (the "Share Option Scheme").

Save as disclosed above, as at 31 December 2011, none of the Directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Option Scheme

The Company adopted the Share Option Scheme on 8 January 2011. Details of the Share Option Scheme are set out in note 27 to the financial statements.

The following table discloses movements of the Company's share options granted under the Share Option Scheme during the year:

		Number of options							
Name or Category of participants	Date of grant (Note 1)	Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2011	Exercise period (Note 2)	Exercise price per share (HK$)
Executive Directors									
Chen Qingwei	30/8/2011	–	4,500,000	–	–	–	4,500,000	A	1.18
	30/8/2011	–	4,500,000	–	–	–	4,500,000	B	1.18
		–	9,000,000	–	–	–	9,000,000		
Zheng Jingdong	30/8/2011	–	2,750,000	–	–	–	2,750,000	A	1.18
	30/8/2011	–	2,750,000	–	–	–	2,750,000	B	1.18
		–	5,500,000	–	–	–	5,500,000		
Zhang Aiguo	30/8/2011	–	1,500,000	–	–	–	1,500,000	A	1.18
	30/8/2011	–	1,500,000	–	–	–	1,500,000	B	1.18
		–	3,000,000	–	–	–	3,000,000		
Sub-total		–	17,500,000	–	–	–	17,500,000		

Share Option Scheme (continued)

Name or Category of participants	Date of grant (Note 1)	Number of options: Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2011	Exercise period (Note 2)	Exercise price per share (HK$)
Employees of the Group									
In aggregate	30/8/2011	–	1,500,000	–	–	–	1,500,000	A	1.18
	30/8/2011	–	8,750,000	–	–	–	8,750,000	B	1.18
	30/8/2011	–	7,250,000	–	–	–	7,250,000	C	1.18
Sub-total		–	17,500,000	–	–	–	17,500,000		
Total		–	35,000,000	–	–	–	35,000,000		

Notes:

1. The closing price of the Company's shares immediately before the date of grant on 30 August 2011 was HK$1.17.

2. The respective exercise periods of the share options granted are as follows:

   A: From 30 August 2012 to 29 August 2016;
   B: From 30 August 2013 to 29 August 2016;
   C: From 30 August 2014 to 29 August 2016.

   The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. Exercise conditions:

   (i) Provided always that a grantee of share options shall remain as a Director or an employee of the Company or its subsidiaries, at the time of exercise of his or her share options;

   (ii) Performance target for share options with exercise period A: the Company's Profit (as defined below) for the year ended 31 December 2011 is higher than RMB150,000,000;

   (iii) Performance target for share options with exercise period B: the Company's Profit for the year ending 31 December 2012 is higher than RMB190,000,000; and

   (iv) Performance target for share options with exercise period C: the Company's Profit for the year ending 31 December 2013 is higher than RMB230,000,000.

   "Profit" is defined as the Company's consolidated net profit attributable to owners of the Company as shown in the audited accountant's report for the corresponding fiscal year, excluding the impact of (i) after-tax employee expenses arising from the grant of the share options and (ii) non-operating gains and losses.

4. The number and/or exercise price of the options may be subject to adjustments in the case of rights or bonus issues, or other changes in the Company's share capital.

Arrangement for Directors to purchase shares or debentures

Save as disclosed in the section of "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" and "Share Option Scheme" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

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

At 31 December 2011, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share capital
Mr. Sze Ching Bor (1)	Interest in controlled corporation	519,035,767 (L)	52.13%
Ms. Tsang Shuk Ping (2)	Spousal interest	519,035,767 (L)	52.13%
Best Mark International Limited	Beneficial owner	473,876,157 (L)	47.59%
CITIC Capital China Mezzanine Fund Limited ("CITIC Capital")	Beneficial owner	85,325,500 (L)	8.57%
Multifield International Limited (3)	Interest in controlled corporation	85,325,500 (L)	8.57%
CITIC Capital Investment Holdings Limited (4)	Interest in controlled corporation	85,325,500 (L)	8.57%
CITIC Capital Holdings Limited (5)	Interest in controlled corporation	85,325,500 (L)	8.57%
CITIC Limited	Interest in controlled corporation	85,325,500 (L)	8.57%
CITIC Group (6)	Interest in controlled corporation	85,325,500 (L)	8.57%
Warlord Investment Corporation (7)	Interest in controlled corporation	85,325,500 (L)	8.57%
China Investment Corporation (8)	Interest in controlled corporation	85,325,500 (L)	8.57%
The Royal Bank of Scotland N.V. (9)	Interest in controlled corporation	85,325,500 (L)	8.57%
The Royal Bank of Scotland Group plc. (10)	Interest in controlled corporation	85,325,500 (L)	8.57%
RBS Holdings N.V. (11)	Interest in controlled corporation	85,325,500 (L)	8.57%
RFS Holdings B.V. (12)	Interest in controlled corporation	85,325,500 (L)	8.57%

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

Notes:

(1) Mr. Sze Ching Bor ("Mr. Sze") is deemed to be interested in the shares of the Company (the "Shares") held by Best Mark International Limited ("Best Mark") and Capital Vision International Limited ("Capital Vision"). Best Mark and Capital Vision are wholly owned and controlled by Mr. Sze and held 473,876,157 Shares and 45,159,610 Shares respectively, representing approximately 47.59% and 4.54%, respectively, of the issued share capital of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions

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

The related party transactions disclosed in note 32 to the financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

Sufficiency of public float

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

Emolument Policy

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company adopted a share option scheme to motivate and reward its Directors and eligible employees. Details of the Share Option Scheme are set out in note 27 to the financial statements

Auditors

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

ON BEHALF OF THE BOARD

ZHENG Liuhe
Chairman

Hong Kong
29 March 2012

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Baofeng Modern International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

29 March 2012

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**1,117,674**	833,268
Cost of sales		**(744,566)**	(558,079)
Gross profit		**373,108**	275,189
Other income and gains, net	5	**7,603**	1,128
Selling and distribution costs		**(81,625)**	(65,449)
General and administrative expenses		**(58,593)**	(34,104)
Other operating expenses		**(3,928)**	(17,377)
Profit from operations		**236,565**	159,387
Finance costs, net	6	**(5,948)**	5,504
PROFIT BEFORE TAX	7	**230,617**	164,891
Income tax expense	10	**(69,918)**	(50,740)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	11	**160,699**	114,151
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
– Basic (RMB)		**0.16**	0.15
– Diluted (RMB)		**N/A**	0.14

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**160,699**	114,151

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**89,758**	49,336
Prepaid land lease payments	15	**36,846**	32,406
Deposit		**250**	–
Prepaid rent	16	**–**	1,239
Total non-current assets		**126,854**	82,981
CURRENT ASSETS			
Inventories	18	**69,689**	50,942
Trade receivables	19	**122,705**	80,839
Prepayments, deposits and other receivables	20	**13,462**	12,631
Value added tax recoverable		**5,869**	5,532
Pledged deposits	21	**382,004**	–
Cash and bank balances	21	**694,816**	327,881
Total current assets		**1,288,545**	477,825
CURRENT LIABILITIES			
Trade payables	22	**60,488**	42,924
Deposits received, other payables and accruals	23	**33,610**	35,627
Interest-bearing bank borrowings	24	**383,910**	39,625
Exchangeable note	25	**–**	58,485
Dividend payable	12	**–**	60,900
Tax payable		**21,463**	16,711
Total current liabilities		**499,471**	254,272
NET CURRENT ASSETS		**789,074**	223,553
Net assets		**915,928**	306,534
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**66,126**	7
Reserves	28(a)	**849,802**	306,527
Total equity		**915,928**	306,534

ZHENG Liuhe
Director

CHEN Qingwei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the Company									
			Reserves								
	Notes	Issued capital RMB'000 (note 26)	Share premium RMB'000	Contributed surplus RMB'000 (note 28(a))	Statutory surplus fund RMB'000 (note 28(a))	Exchange fluctuation reserve RMB'000 (note 28(a))	Capital redemption reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total equity RMB'000
At 1 January 2010		**7**	**–**	**63,511**	**33,606**	**155**	**–**	**–**	**126,323**	**223,595**	**223,602**
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	–	114,151	114,151	114,151
Issue of shares	26	–	21,767	–	–	–	–	–	–	21,767	21,767
Interim 2010 dividend	12	–	–	–	–	–	–	–	(60,900)	(60,900)	(60,900)
Restructuring of the Exchangeable Note	25	–	–	7,914	–	–	–	–	–	7,914	7,914
Transfer to statutory surplus fund		–	–	–	13,052	–	–	–	(13,052)	–	–
At 31 December 2010 and 1 January 2011		**7**	**21,767**	**71,425**	**46,658**	**155**	**–**	**–**	**166,522**	**306,527**	**306,534**
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	–	160,699	160,699	160,699
Capitalisation issue	26	49,800	(49,800)	–	–	–	–	–	–	(49,800)	–
Issue of shares	26	16,603	410,747	–	–	–	–	–	–	410,747	427,350
Share issue expenses		–	(18,477)	–	–	–	–	–	–	(18,477)	(18,477)
Repurchase and cancellation of shares	26, 28	(284)	(3,456)	–	–	–	284	–	(284)	(3,456)	(3,740)
Equity-settled share option arrangements	27	–	–	–	–	–	–	2,103	–	2,103	2,103
Interim 2011 dividend	12	–	–	–	–	–	–	–	(16,309)	(16,309)	(16,309)
Transfer from the liability component of the Exchangeable Note to contributed surplus	25	–	–	57,768	–	–	–	–	–	57,768	57,768
Transfer to statutory surplus fund		–	–	–	18,167	–	–	–	(18,167)	–	–
At 31 December 2011		**66,126**	**360,781**	**129,193**	**64,825**	**155**	**284**	**2,103**	**292,461**	**849,802**	**915,928**

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**230,617**	164,891
Adjustments for:			
Interest income	5	**(3,303)**	(944)
Interest expenses	6	**5,948**	14,838
Depreciation	7	**5,719**	5,615
Amortisation of prepaid land lease payments	7	**1,130**	140
Amortisation of prepaid rent	7	**2,479**	4,958
Loss on disposal of items of property, plant and equipment	7	**90**	5
Equity-settled share option expense	7	**2,103**	–
Waiver of maturity yield payment of exchangeable note	6	**–**	(20,342)
		244,783	169,161
Increase in a deposit		**(250)**	–
Increase in prepaid rent		**–**	(2,479)
Decrease/(increase) in inventories		**(18,747)**	4,681
Decrease/(increase) in trade receivables		**(41,866)**	16,402
Increase in prepayments, deposits and other receivables		**(1,958)**	(7,490)
Decrease/(increase) in value added tax recoverable		**(337)**	1,305
Increase/(decrease) in trade payables		**17,564**	(2,303)
Increase/(decrease) in deposits received, other payables and accruals		**(2,017)**	23,733
Increase in an amount due to a director		**–**	21,088
Decrease in an amount due to a related company		**–**	(170)
Cash generated from operations		**197,172**	223,928
Interest received		**3,303**	944
PRC taxes paid		**(65,166)**	(47,941)
Net cash flows from operating activities		**135,309**	176,931
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(46,624)**	(5,082)
Addition to prepaid land lease payments	15	**(5,683)**	(27,412)
Proceeds from disposal of items of property, plant and equipment		**393**	–
Decrease in deposits paid for the land use right and the acquisition of a building		**–**	28,260
Increase in pledged deposits		**(382,004)**	–
Net cash flows used in investing activities		**(433,918)**	(4,234)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares	26	**427,350**	–
Share issue expenses	28	**(18,477)**	–
New bank loans		**461,410**	74,275
Repayment of bank loans		**(117,125)**	(89,150)
Repurchase of shares	26	**(3,740)**	–
Dividend paid	12	**(77,209)**	–
Interest paid		**(6,665)**	(8,445)
Net cash flows from/(used in) financing activities		**665,544**	(23,320)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**366,935**	149,377
Cash and cash equivalents at beginning of year		**327,881**	178,504
CASH AND CASH EQUIVALENTS AT END OF YEAR		**694,816**	327,881
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**694,816**	327,881

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**719,419**	368,082
CURRENT ASSETS			
Prepayments	20	**4,544**	5,735
Dividend receivable from a subsidiary	17	**51,988**	91,350
Pledged deposits	21	**382,004**	–
Cash and bank balances	21	**840**	–
Total current assets		**439,376**	97,085
CURRENT LIABILITIES			
Other payables and accruals	23	**135**	11,698
Exchangeable note	25	**–**	58,485
Due to a subsidiary	17	**3,311**	2,932
Dividend payable	12	**–**	60,900
Interest-bearing bank borrowings	24	**318,910**	–
Total current liabilities		**322,356**	134,015
NET CURRENT LIABILITIES		**117,020**	(36,930)
Net assets		**836,439**	331,152
EQUITY			
Issued capital	26	**66,126**	7
Reserves	28(b)	**770,313**	331,145
Total equity		**836,439**	331,152

ZHENG Liuhe
Director

CHEN Qingwei
Director

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 address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is located in Huoju Industrial Zone, Quanzhou, Fujian Province, the People's Republic of China ("PRC"). The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011 (the "Listing Date").

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

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC-Int 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised) and the amendment to IAS 1 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) Related Party Disclosures
IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 32 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. The key amendment most applicable to the Group is IAS 1 *Presentation of Financial Statements*, which clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
IFRS 9	*Financial Instruments* [6]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation* of *Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits* [4]
IAS 27 (Revised)	*Separate Financial Statements* [4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group, or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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 operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, pledged deposits and cash and bank balances.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, an 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a 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.

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 bank balances comprise cash on hand and at banks, 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 rate 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 shareholder's right 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.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as an additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

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

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

Accounting treatment of exchangeable note

The Group recognised a financial liability in last year in respect of the obligation to repay CITIC Capital (as defined in note 25) pursuant to the Agreement (as defined in note 25). The Group's management has assessed the terms of the Agreement and the facts and circumstances, and concluded that in respect of the funds contributed by CITIC Capital after netting off of the equity 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 considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

Impairment allowances for trade and other receivables

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, 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 10 to these financial statements.

Valuation of exchangeable note

As described in note 25 to the financial statements, 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.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share options, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in note 27.

4. OPERATING 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, pledged deposits 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, dividend payable and tax payable as these liabilities are managed on a group basis.

	OEM RMB'000	Boree products RMB'000	Baofeng products RMB'000	Total RMB'000
Year ended 31 December 2011				
Segment revenue:				
Sales to external customers	**548,167**	**402,339**	**167,168**	**1,117,674**
Segment results	**131,747**	**104,046**	**55,690**	**291,483**
Reconciliation:				
Interest income				**3,303**
Other unallocated income and gains				**4,300**
Corporate and other unallocated expenses				**(62,521)**
Finance costs, net				**(5,948)**
Profit before tax				**230,617**
Segment assets	**74,766**	**74,795**	**22,706**	**172,267**
Reconciliation:				
Corporate and other unallocated assets				**1,243,132**
Total assets				**1,415,399**
Segment liabilities	**–**	**1,200**	**1,200**	**2,400**
Reconciliation:				
Corporate and other unallocated liabilities				**497,071**
Total liabilities				**499,471**

4. OPERATING SEGMENT INFORMATION (continued)

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

Geographical information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
PRC (principal place of operations)	**925,037**	686,270
United States of America	**169,036**	118,033
South America	**6,562**	8,861
South East Asia	**1,812**	7,327
Europe	**4,232**	3,652
Other countries	**10,995**	9,125
	1,117,674	833,268

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2011 RMB'000	2010 RMB'000
PRC (principal place of operations)	**126,854**	82,981

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

Information about major customers

For the years ended 31 December 2011 and 2010, none of the customers of the Group had individually accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	2011 RMB'000	2010 RMB'000
Revenue		
Manufacture and sale of goods	**1,117,674**	833,268
Other income and gains, net		
Interest income	**3,303**	944
Rental income	**191**	188
Subsidy income *	**20**	712
Foreign exchange differences, net	**3,880**	(684)
Others	**209**	(32)
	7,603	1,128

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

6. FINANCE COSTS, NET

	Group 2011 RMB'000	Group 2010 RMB'000
Interest on bank loans repayable within five years	**4,738**	2,927
Interest expenses on exchangeable note (note 25)	**1,210**	11,911
Waiver of maturity yield payment of exchangeable note (note 25)	**–**	(20,342)
	5,948	(5,504)

7. PROFIT BEFORE TAX

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

	2011 RMB'000	2010 RMB'000
Cost of inventories sold*	**744,566**	558,079
Depreciation*	**5,719**	5,615
Amortisation of prepaid land lease payments	**1,130**	140
Amortisation of prepaid rent*	**2,479**	4,958
Minimum lease payments under operating leases in respect of land and buildings*	**2,992**	5,016
Employee benefit expenses* (including directors' remuneration – note 8):		
Wages and salaries	**102,676**	77,669
Equity-settled share option expense	**2,103**	–
Staff welfare	**10,849**	3,623
Pension scheme contributions**	**9,658**	7,425
	125,286	88,717
Auditors' remuneration	**1,977**	1,846
Loss on disposal of items of property, plant and equipment	**90**	5
Foreign exchange differences, net	**(3,880)**	684
Bank interest income	**(3,303)**	(944)
Research and development costs ***	**2,055**	2,176

* The cost of inventories sold for the year ended 31 December 2011 includes approximately RMB93,145,000 (2010: RMB71,548,000) relating to direct staff costs, depreciation of manufacturing facilities, amortisation of prepaid rent and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

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

8. DIRECTORS' REMUNERATION

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

	Group	
	2011	2010
	RMB'000	RMB'000
Fees	**810**	306
Other emoluments:		
Salaries, allowances and benefits in kind	**2,325**	1,235
Equity-settled share option expense	**1,260**	–
Pension scheme contributions	**4**	2
	4,399	1,543

The fair value of these share options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid or payable to independent non-executive directors during the current year are as follows:

	2011	2010
	RMB'000	RMB'000
Professor Bai Chang Hong	**168**	102
Mr. Lee Keung, Thomson	**168**	102
Ms. An Na	**168**	102
	504	306

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Non-executive directors

The fees paid or payable to non-executive directors during the current year are as follows:

	2011	2010
	RMB'000	RMB'000
Mr. Sze Ching Bor	**153**	-
Mr. Cheung Miu	**153**	-
	306	-

There were no other emoluments payable to the non-executive directors during the year (2010: Nil).

8. DIRECTORS' REMUNERATION (continued)

(c) Executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2011					
Mr. Zheng Liuhe	**–**	**607**	**–**	**–**	**607**
Mr. Chen Qingwei	**–**	**606**	**648**	**–**	**1,254**
Mr. Zhang Aiguo	**–**	**606**	**216**	**2**	**824**
Mr. Zheng Jingdong	**–**	**506**	**396**	**2**	**904**
	–	**2,325**	**1,260**	**4**	**3,589**
Year ended 31 December 2010					
Mr. Zheng Liuhe	–	329	–	–	329
Mr. Chen Qingwei	–	314	–	–	314
Mr. Zhang Aiguo	–	314	–	1	315
Mr. Zheng Jingdong	–	278	–	1	279
	–	1,235	–	2	1,237

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2010: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining non-director, highest paid employee for the years are as follows:

	Group 2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**725**	763
Equity-settled share option expense	**86**	–
	811	763

During the year ended 31 December 2011, the remuneration of the non-director, highest paid employee fell within the band of RMB500,001 to RMB1,000,000 (2010: RMB500,001 to RMB1,000,000).

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the year (2010: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2011	2010
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**71,711**	50,133
Under/(overprovision) in prior years	**(1,793)**	607
Total tax charge for the year	**69,918**	50,740

Pursuant to the Enterprise Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**230,617**	164,891
Tax at the applicable tax rates	**59,058**	42,506
Adjustment in respect of current tax of prior years	**(1,793)**	607
Income not subject to tax	**–**	(3,356)
Expenses not deductible for tax	**7,854**	5,739
Effect of withholding tax of 10% on the distributable profits of the Group's PRC subsidiary	**8,200**	5,500
Others	**(3,401)**	(256)
Tax charge at the Group's effective rate	**69,918**	50,740

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

10. INCOME TAX (continued)

At 31 December 2011, the aggregate amounts of temporary differences associated with an investment in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised is approximately RMB266,644,000 (2010: RMB185,146,000).

The Group has no significant unprovided deferred tax in respect of the reporting period and as at the end of the reporting period (2010: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 includes a loss of RMB4,408,000 (2010: RMB11,820,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. DIVIDENDS

	2011 **RMB'000**	2010 RMB'000
Interim dividend declared during the year: 2011 – HK2.0 cents (2010: HK$694) per ordinary share	**16,309**	60,900
Proposed final dividend: 2011 – HK3.0 cents (2010: Nil) per ordinary share	**24,217**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the consolidated profit for the year attributable to owners of the Company and the weighted average number of ordinary shares of 979,760,877 (2010: 750,000,000) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the 102,719 ordinary shares in issue, 749,897,281 ordinary shares issued pursuant to the capitalisation issue, 250,000,000 ordinary shares issued on 28 January 2011 in connection with the listing of the Company's ordinary shares on the Stock Exchange, and 4,280,000 repurchased and cancelled shares.

The number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2010 was based on the 750,000,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the year ended 31 December 2010, as further detailed in note 26(a) to the financial statements.

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

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2011 in respect of a dilution as the impact of the exchangeable note outstanding during the year has an anti-dilutive effect on the basic earnings per share amounts presented.

The number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2010 is the number of ordinary shares as used in the basic earnings per share calculation.

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

	2011 **RMB'000**	2010 RMB'000
Earnings		
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	**160,699**	114,151
Interest on exchangeable note	**1,210**	11,911
Less: Waiver of maturity yield payment of exchangeable note	**–**	(20,342)
Consolidated profit attributable to owners of the Company before interest on exchangeable note and wavier of maturity yield payment of exchangeable note	**161,909**	105,720

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011							
Cost:							
At 1 January 2011	**45,243**	**19,219**	**6,097**	**4,167**	**1,817**	**–**	**76,543**
Additions	**–**	**3,049**	**502**	**1,573**	**13,128**	**28,372**	**46,624**
Disposals	**–**	**(876)**	**(282)**	**(310)**	**–**	**–**	**(1,468)**
At 31 December 2011	**45,243**	**21,392**	**6,317**	**5,430**	**14,945**	**28,372**	**121,699**
Accumulated depreciation:							
At 1 January 2011	**11,327**	**10,535**	**3,295**	**1,536**	**514**	**–**	**27,207**
Provided during the year	**2,156**	**1,556**	**983**	**474**	**550**	**–**	**5,719**
Disposals	**–**	**(500)**	**(268)**	**(217)**	**–**	**–**	**(985)**
At 31 December 2011	**13,483**	**11,591**	**4,010**	**1,793**	**1,064**	**–**	**31,941**
Net carrying amount:							
At 31 December 2011	**31,760**	**9,801**	**2,307**	**3,637**	**13,881**	**28,372**	**89,758**
31 December 2010							
Cost:							
At 1 January 2010	42,383	18,751	6,097	2,452	1,817	–	71,500
Additions	2,860	472	–	1,750	–	–	5,082
Disposals	–	(4)	–	(35)	–	–	(39)
At 31 December 2010	45,243	19,219	6,097	4,167	1,817	–	76,543
Accumulated depreciation:							
At 1 January 2010	9,314	8,726	2,293	1,142	151	–	21,626
Provided during the year	2,013	1,810	1,002	427	363	–	5,615
Disposals	–	(1)	–	(33)	–	–	(34)
At 31 December 2010	11,327	10,535	3,295	1,536	514	–	27,207
Net carrying amount:							
At 31 December 2010	33,916	8,684	2,802	2,631	1,303	–	49,336

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

At 31 December 2011, included in "Buildings" is a property for self-use with a carrying amount of approximately RMB7,000 (2010: RMB8,000) for which the Group has not yet obtained the building ownership certificate.

15. PREPAID LAND LEASE PAYMENTS

	Group 2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	**33,109**	5,837
Additions	**5,683**	27,412
Amortisation during the year	**(1,130)**	(140)
Carrying amount at 31 December	**37,662**	33,109
Current portion included in prepayments, deposits and other receivables	**(816)**	(703)
Non-current portion	**36,846**	32,406

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

16. PREPAID RENT

	Group 2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	**3,718**	6,197
Additions	**–**	2,479
Amortisation during the year	**(2,479)**	(4,958)
Carrying amount at 31 December	**1,239**	3,718
Current portion included in prepayments, deposits and other receivables	**(1,239)**	(2,479)
Non-current portion	**–**	1,239

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.

17. INVESTMENTS IN SUBSIDIARIES

	Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**303,650**	303,650
Due from a subsidiary	**415,769**	64,432
	719,419	368,082

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are set out as follows:

Name	Place of registration/ incorporation and operations	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BAOF International Limited ("BAOF HK")	Hong Kong	HK$10,000	100	–	Investment holding
Quanzhou Baofeng Shoes Co., Ltd.* ("Quanzhou Baofeng")	PRC	RMB407,229,000	–	100	Manufacture and sale of slippers

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

During the year ended 31 December 2011, the registered capital of Quanzhou Baofeng has been increased from RMB87,400,000 to RMB472,400,000. As at 31 December 2011, the paid up capital of Quanzhou Baofeng was RMB407,229,000 (2010: RMB87,400,000).

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the balance is not repayable within 12 months from the end of the reporting period and is considered as a quasi-equity loan to a subsidiary. The carrying value of the amount due from a subsidiary approximates to its fair value.

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

A dividend receivable of RMB51,988,000 (2010: RMB91,350,000) 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. The application to the relevant authorities in Mainland China was not submitted at the end of the reporting period. In the opinion of the directors, the dividend receivable from a subsidiary will be settled within 12 months from the end of the reporting period.

All the Company's amounts due from a subsidiary as at 31 December 2010 was pledged to CITIC Capital (as defined in note 25) to secure the Exchangable Note and the New Exchangeable Note, which was released and discharged upon the exchange of the New Exchangeable Note in full as further detailed note 25 to these financial statements.

18. INVENTORIES

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**9,120**	5,492
Work in progress	**11,007**	10,121
Finished goods	**49,562**	35,329
	69,689	50,942

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period offered to its customers is generally for a period of three months. The Group seeks to apply strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 3 months	**122,225**	80,839
3 to 6 months	**480**	–
	122,705	80,839

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

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**122,225**	80,839
Less than 3 months past due	**480**	–
	122,705	80,839

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

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

At 31 December 2010, the Group pledged trade receivables of approximately RMB33,904,000 to secure the bank borrowings granted to the Group (note 24). During the year ended 31 December 2011, the respective bank borrowings were fully repaid and the pledged trade receivables were released.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**5,250**	12,076	**4,544**	5,735
Deposits	**3,283**	555	**–**	–
Other receivables	**4,929**	–	**–**	–
	13,462	12,631	**4,544**	5,735

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

21. PLEDGED DEPOSITS AND CASH AND BANK BALANCES

Deposits were pledged for bank loans granted to the Group during the year (note 24).

At 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to RMB685,850,000 (2010: RMB327,881,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits are made for varying period of three months depending on the repayment of the bank loans, and earn interest at the respective time deposit rates ranging from 1.10% to 1.27% per annum (2010: Nil). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 3 months	**60,488**	42,924

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

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received	**2,450**	2,530	**–**	–
Other payables	**16,404**	22,863	**49**	10,897
Accruals	**14,756**	10,234	**86**	801
	33,610	35,627	**135**	11,698

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

24. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Bank loans – unsecured	**65,000**	10,000	**–**	–
Bank loans – secured	**318,910**	29,625	**318,910**	–
	383,910	39,625	**318,910**	–
Analysed into:				
Bank loans repayable within one year	**383,910**	39,625	**318,910**	–

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

Year ended 31 December 2011	1.486% – 6.626% per annum
Year ended 31 December 2010	2.957% – 5.576% per annum

(b) At 31 December 2011, the secured bank loans of the Group and the Company were secured by the pledge of the Group's bank deposits of RMB382,004,000 (2010: Nil) (note 21).

(c) At 31 December 2010, the secured bank loans of the Group and the Company were secured by the pledge of the Group's trade receivables amounting to RMB33,904,000. During the year ended 31 December 2011, the respective bank borrowings were fully repaid and the pledged trade receivables were released.

25. 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 26 to the financial statements.

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

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

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 at 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 the 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.

25. EXCHANGEABLE NOTE (continued)

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

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

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

25. EXCHANGEABLE NOTE (continued)

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

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

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

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

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

25. EXCHANGEABLE NOTE (continued)

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

Exchangeable Note	Notes	RMB'000
Liability component at 1 January 2010		80,348
Restructuring of the Exchangeable Note:		
Shareholders' assumption of the Maturity Yield Payment	28	(7,914)
Waiver of the Maturity Yield Payment	6	(20,342)
Interest expense for the year	6	11,911
Interest paid during the year		(5,518)
Liability component at 31 December 2010 and 1 January 2011		58,485
Interest expense for the year	6	1,210
Interest paid during the year		(1,927)
Transfer to contribution surplus on 28 January 2011		(57,768)
Liability component at 31 December 2011		–

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

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

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

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

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

The above securities will be released and discharged upon the exchange of the New Exchangeable Note in full pursuant to the conditional release and discharge agreements entered between the Shareholders, the Company, BAOF HK and CITIC Capital on 17 January 2011. On 17 January 2011, CITIC Capital delivered an exchange notice to exercise the Exchange Right of the New Exchangeable Note in full subject to certain conditions as detailed in the Company's prospectus dated 18 January 2011. Accordingly, the liability component of the New Exchangeable Note at the date of exchange was extinguished and resulted in an increase in the contributed surplus in shareholders' equity.

26. SHARE CAPITAL

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

Shares

	Notes	2011 RMB'000	2010 RMB'000
Authorised:			
5,000,000,000 ordinary shares (2010: 4,999,999) of US$0.01 each	(a)	**342,400**	342
Nil preference share (2010: one) of US$0.01 each	(b)	**–**	–
		342,400	342
Issued and fully paid:			
995,720,000 ordinary shares (2010: 102,719) of US$0.01 each	(a)	**66,126**	7
Nil preference share (2010: one) of US$0.01 each	(b)	**–**	–
		66,126	7

(a) Ordinary shares

	Notes	Number of ordinary shares of US$0.01 each	Nominal value of ordinary shares US$'000	Nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2010 and 31 December 2010		4,999,999	50	342
Preference share redesignated as ordinary share on 28 January 2011	(i)	1	–	–
Increase in authorised capital on 8 January 2011	(ii)	4,995,000,000	49,950	342,058
At 31 December 2011		5,000,000,000	50,000	342,400
Issued:				
At 1 January 2010		100,000	1	7
Issue of shares pursuant to first loan capitalisation	(iii)	816	–	–
Issue of shares pursuant to second loan capitalisation	(iv)	1,903	–	–
At 31 December 2010 and 1 January 2011		102,719	1	7
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	(v)	749,897,281	7,499	49,800
Pro forma issued capital as at 31 December 2010		750,000,000	7,500	49,807
Issuance of new shares on 28 January 2011	(vi)	250,000,000	2,500	16,603
Repurchased and cancellation of shares	(vii)	(4,280,000)	(43)	(284)
At 31 December 2011		995,720,000	9,957	66,126

26. SHARE CAPITAL (continued)

(b) Preference shares

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

Notes:

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

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

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

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

(v) 749,897,281 new shares of US$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of approximately RMB49,800,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 28 January 2010, in proportion to their respective shareholdings. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (vi) below.

26. SHARE CAPITAL (continued)

Notes: (continued)

(vi) In connection with the Company's initial public offering, 250,000,000 shares of US$0.01 each were issued at a price of HK$2.00 per share (equivalent to RMB1.71 per share) for a total cash consideration, before expenses, of approximately HK$500,000,000 (equivalent to RMB427,350,000). This resulted in an increase in issued share capital by approximately RMB16,603,000 and share premium account by approximately RMB410,747,000. Dealings in these shares on the Stock Exchange commenced on 28 January 2011.

(vii) During the year, the Company repurchased its 4,280,000 ordinary shares at prices ranging from HK$0.97 to HK$1.17 per share at a total consideration of approximately HK$4,545,000 (equivalent to RMB3,740,000). The 4,280,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK$4,200,000 (equivalent to RMB3,456,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$345,000 (equivalent to RMB284,000) was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 28 to the financial statements.

27. SHARE OPTION SCHEME

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

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

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

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

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

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

27. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	Number of options
At 1 January 2011	–	–
Granted during the year	1.18	35,000,000
At 31 December 2011	1.18	35,000,000

The share options are vested to the grantees in the following manner:

- 10,250,000 of such share options are vested on 30 August 2012 with an exercise period from 30 August 2012 to 29 August 2016;
- 10,250,000 of such share options are vested on 30 August 2013 with an exercise period from 30 August 2013 to 29 August 2016;
- 7,250,000 of such share options are vested on 30 August 2013 with an exercise period from 30 August 2013 to 29 August 2016; and
- 7,250,000 of such share options are vested on 30 August 2014 with an exercise period from 30 August 2014 to 29 August 2016.

No share options were exercised during the year ended 31 December 2011.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options	Exercise price HK$ per share	Exercise period
35,000,000	1.18	30 August 2012 to 29 August 2016

The fair value of the share options granted during the year was HK$12,880,000 (RMB10,549,000) of HK$0.37 each (RMB0.30 each) of which the Group recognised a share option expense of RMB2,103,000 during the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	1.80
Volatility (%)	47.42
Risk-free interest rate (%)	0.79
Expected life of options (year)	5
Weighted average share price (HK$ per share)	1.18

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

27. SHARE OPTION SCHEME (continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had 35,000,000 share options outstanding under the Scheme, which represented approximately 3.5% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 35,000,000 additional ordinary shares of the Company and additional share capital of HK$2,723,000 (equivalent to RMB2,208,000) and share premium of HK$38,577,000 (equivalent to RMB31,274,000), before issue expenses.

28. RESERVES

(a) Group

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

(i) Contributed surplus

The contributed surplus represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the corporate reorganisation of the Group in preparation for the Listing over the consideration paid for acquiring these subsidiaries of RMB49,993,000 and the capital contribution from the Shareholders in the form of the Exchange Right and the Call Option granted to CITIC Capital under the Exchangeable Note with an aggregate carrying value of RMB13,518,000 as at Original Issuance Date (note 25).

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 year ended 31 December 2010 (note 25).

On 17 January 2011, CITIC Capital, the Company and the Shareholders have entered into certain conditional release and discharge agreements, pursuant to which, the New Exchangeable Note would be duly released and discharged, which have been taken place on the Listing Date, 28 January 2011, and prior to the commencement of trading of the Company's shares on the Stock Exchange. Accordingly, the liability component of the New Exchangeable Note RMB57,768,000 on the Listing Date was extinguished and transferred to the contributed surplus in shareholders' equity upon the full conversion of the New Exchangeable Note.

(ii) Statutory surplus fund

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

(iii) Exchange fluctuation reserve

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

28. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2010		**–**	**317,161**	**–**	**–**	**(34,327)**	**282,834**
Profit for the year and total comprehensive income for the year		–	–	–	–	79,530	79,530
Issue of shares	26	21,767	–	–	–	–	21,767
Restructuring of the Exchangeable Note	25	–	7,914	–	–	–	7,914
Interim 2010 dividend	12	–	–	–	–	(60,900)	(60,900)
At 31 December 2010 and 1 January 2011		**21,767**	**325,075**	**–**	**–**	**(15,697)**	**331,145**
Profit for the year and total comprehensive income for the year		–	–	–	–	56,592	56,592
Capitalisation	26	(49,800)	–	–	–	–	(49,800)
Issue of shares	26	410,747	–	–	–	–	410,747
Share issue expenses		(18,477)	–	–	–	–	(18,477)
Shares repurchased	26	(3,456)	–	284	–	(284)	(3,456)
Equity-settled share option arrangements	27	–	–	–	2,103	–	2,103
Interim 2011 dividend	12	–	–	–	–	(16,309)	(16,309)
Transfer from the liability component of the Exchangeable Note to contributed surplus	25	–	57,768	–	–	–	57,768
At 31 December 2011		**360,781**	**382,843**	**284**	**2,103**	**24,302**	**770,313**

The profit of RMB56,592,000 (2010: RMB79,530,000) for the year ended 31 December 2011 included dividend income of RMB61,000,000 (2010: RMB91,350,000) from a subsidiary of the Company.

The contributed surplus represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the corporate reorganisation of the Group in preparation for the Listing over the consideration paid for acquiring these subsidiaries of RMB303,643,000, and the capital contribution from the Shareholders in the form of the Exchangeable Right and the Call Option granted to CITIC Capital under the Exchangeable Note with an aggregate carrying value of RMB13,518,000 as at Original Issuance Date (note 25).

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 year ended 31 December 2010 (note 25).

28. RESERVES (continued)

(b) Company (continued)

On 17 January 2011, CITIC Capital, the Company and the Shareholders have entered into certain conditional release and discharge agreements, pursuant to which, the New Exchangeable Note would be duly released and discharged, which have been taken place on the Listing Date, 28 January 2011, and prior to the commencement of trading of the Company's shares on the Stock Exchange. Accordingly, the liability component of the New Exchangeable Note RMB57,768,000 on the Listing Date was extinguished and transferred to the contributed surplus in shareholders' equity upon the full conversion of the New Exchangeable Note.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

During the year ended 31 December 2010, the Group had the following major non-cash transactions:

(a) First loan capitalisation

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

(b) Second loan capitalisation

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

30. OPERATING LEASE ARRANGEMENTS

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

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**1,804**	2,479
In the second to fifth years, inclusive	**–**	1,239
	1,804	3,718

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

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the end of the reporting period:

	2011 **RMB'000**	2010 RMB'000
Contracted for capital commitment in respect of investment in Quanzhou Baofeng	**65,171**	–
Contracted for commitments in respect of:		
– advertising and consultancy services	**689**	518
– research and development	**1,667**	2,167
– property, plant and equipment	**1,800**	–
– retail products licences	**7,020**	–
– manufacturing and distributorship license	**25,519**	–
	36,695	2,685

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

32. RELATED PARTY TRANSACTIONS

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

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

	2011 **RMB'000**	2010 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,325**	1,235
Equity-settled share option expense	**1,260**	–
Pension scheme contributions	**4**	2
	3,589	1,237

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2011 and 2010 are as follows:

Financial assets – loans and receivables

Group

	2011 RMB'000	2010 RMB'000
Trade receivables	**122,705**	80,839
Other receivables (note 20)	**4,929**	–
Pledged deposits	**382,004**	–
Cash and bank balances	**694,816**	327,881
	1,204,454	408,720

Company

	2011 RMB'000	2010 RMB'000
Due from a subsidiary (note 17)	**415,480**	64,432
Pledged deposits	**382,004**	–
Cash and bank balances	**840**	–
	798,324	64,432

Financial liabilities at amortised cost

Group

	2011 RMB'000	2010 RMB'000
Trade payables	**60,488**	42,924
Other payables (note 23)	**16,404**	22,863
Accruals (note 23)	**14,756**	10,234
Interest-bearing bank borrowings	**383,910**	39,625
Exchangeable note	**–**	58,485
	475,558	174,131

Company

	2011 RMB'000	2010 RMB'000
Other payables (note 23)	**49**	10,897
Accruals (note 23)	**86**	801
Exchangeable note	**–**	58,485
Due to a subsidiary (note 17)	**3,311**	2,932
Interest-bearing bank borrowings	**318,910**	–
	322,356	73,115

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

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

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

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in the Group's profit before tax RMB'000
2011		
If US$ strengthens against RMB	5	(11,774)
If US$ weakens against RMB	(5)	11,774
2010		
If US$ strengthens against RMB	5	(2,622)
If US$ weakens against RMB	(5)	2,622

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 trade receivables, other receivables, pledged deposits and cash and bank balances, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing bank borrowings, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

	Increase in interest rate (basis points)	Decrease in profit before tax RMB'000
2011	100	864
2010	100	–

Liquidity risk

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

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

On demand and within 1 year

Group

	2011 RMB'000	2010 RMB'000
Trade payables	**60,488**	42,924
Other payables (note 23)	**16,404**	22,863
Accruals (note 23)	**14,756**	10,234
Interest-bearing bank borrowings	**387,170**	40,158
Exchangeable note	**–**	73,205
	478,818	189,384

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2011 RMB'000	2010 RMB'000
Other payables (note 23)	**49**	10,897
Accruals (note 23)	**86**	801
Exchangeable note	**–**	73,205
Due to a subsidiary (note 17)	**3,311**	2,932
Interest-bearing bank borrowings	**387,170**	–
	390,616	87,835

Commodity price risk

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

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 years ended 31 December 2011 and 2010.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables	**60,488**	42,924
Deposits received, other payables and accruals	**33,610**	35,627
Interest-bearing bank borrowings	**383,910**	39,625
Exchangeable note	**–**	58,485
Total debt	**478,008**	176,661
Equity attributable to owners of the Company	**915,928**	306,534
Total equity plus total debt	**1,393,936**	483,195
Gearing ratio	**34%**	37%

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.