寶峰時尚

boree

baofeng 宝峰

Baofeng Modern International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code :1121

2012 Interim Report

BAOFENG 1121.HK

www.baofengmodern.com

Hot Sales of
NBA Products
Summer Sports Fashion Trend

boree ⊗ *FashionTV*
2012
Fall / Winter Series

boree Store
Entry into the
Southeast Asia

NBA Concept Store
in Beijing
Open in September

Exclusive **Title Sponsorship for**
Mayday
Noah's Ark World Tour Concert
in Quanzhou

Glamor Summer Hit Products
boree ×
Swarovski Elements Collection

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
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Sheung Wan
Hong Kong

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Designed & Produced by **HeterMedia Services Limited**

HONG KONG SHARE REGISTRAR

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

AUDITORS

Ernst & Young

LEGAL ADVISER

Orrick, Herrington & Sutcliffe

COMPLIANCE ADVISER

Cinda International Capital Limited

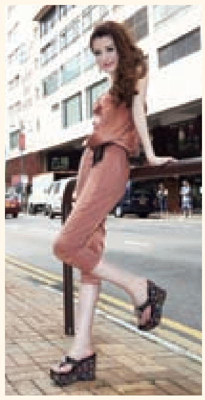
PRINCIPAL BANKERS

Bank of China
China Bank of Construction

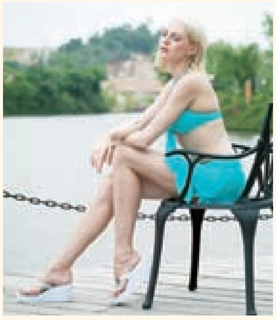
Contents

2012 Collection

Spring / Summer











2012 Collection
Fall / Winter

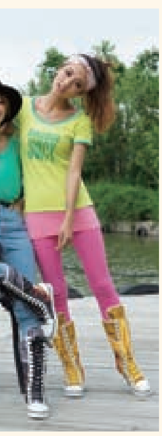












Financial Highlights

	For the six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	Increase/ (decrease) % Change
Revenue (Total)	**730,524**	594,920	22.8%
Revenue (Boree Products)	**282,806**	203,855	38.7%
Revenue (Baofeng Products)	**112,950**	80,623	40.1%
Revenue (Brand Licensee Business)	**8,710**	–	N/A
Revenue (OEM Business)	**326,058**	310,442	5.0%
Gross Profit	**251,946**	197,516	27.6%
Profit from Core Operations	**112,979**	96,227	17.4%
Profit for the Period	**79,740**	95,017	(16.1)%
Shareholders' Equity	**986,527**	868,192	13.6%

	For the six months ended 30 June 2012 (unaudited)	2011 (unaudited)
Profitability data (RMB million)		
Revenue	**730.5**	594.9
Gross profit	**251.9**	197.5
Operating profit	**133.5**	135.5
Profit for the period	**79.7**	95.0
Profitability ratios (%)		
Gross profit margin	**34.5%**	33.2%
Operating profit margin	**18.3%**	22.8%
Net profit margin	**10.9%**	16.0%
Operating ratios (as a percentage of revenue) (%)		
Advertising and marketing expenses	**3.6%**	2.8%
Assets and liabilities data (RMB million)		
Non-current assets	**139.1**	112.2
Current assets	**1,189.2**	1,212.0
Current liabilities	**339.9**	453.2
Non-current liabilities	**1.8**	2.8
Shareholders' equity	**986.5**	868.2
Asset and Working Capital data		
Current asset ratios (%)	**89.5%**	91.5%
Current ratios (time)	**3.5**	2.7
Gearing ratios (%)	**24.0%**	33.5%

Management Discussion and Analysis

During the six months ended 30 June 2012 (the "Period"), Baofeng Modern International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "Baofeng Modern") continued to maintain satisfactory growth in revenue, gross profit and profit from its core operations. The revenue amounted to RMB730.5 million, representing an increase of 22.8% as compared with that of the corresponding period last year (2011: RMB594.9 million). The gross profit margin increased by 1.3 percentage points to 34.5% (2011: 33.2%). The profit from the core operations amounted to RMB113.0 million, representing an increase of 17.4% as compared with that of the corresponding period last year (2011: RMB96.2 million).

Furthermore, the Group took great efforts in promoting our products and strengthening own brand recognition, which in turn drove growth in sales. Maintaining its growth momentum, the revenue from the own branded business of the Group for the Period amounted to RMB395.8 million, representing an increase of 39.1% as compared with that of the corresponding period last year and accounted for 54.2% (2011: 47.8%) of the total revenue of the Group. Meanwhile, the newly introduced brand licensee business also contributed revenue of RMB8.7 million to the Group.

During the Period, as the Group's issuance of convertible notes and warrants to a strategic investor, which was recognised at fair value in accordance with the International Financial Reporting Standards ("IFRS"), resulted in a loss arising from fair value changes in an amount of RMB33.0 million, and as a result, the net profit of the Group for the Period amounted to RMB79.7 million.

BUSINESS REVIEW

Business in the Greater China Region

Own Branded Business

The Boree brand, targeting the medium-to-high end market of slippers, sandals and casual footwear, continued to be the Group's key growth driver. Revenue generated from Boree brand for the Period increased by 38.7% to RMB282.8 million (2011: RMB203.9 million). In addition to the increase of sales points, the increase of revenue was also attributable to the introduction of more diversified and high-end designs for the Group's footwear products, as well as the Group's strenuous efforts in promoting our products, and enhancing the attractiveness of our own brands. The footwear with Swarovski Elements crystals and the Miss Asia series launched by the Group received warm response from the distributors at the Fall/Winter sales fair held in May 2012. The Group will continue to upgrade our products and launch more luxurious footwear to meet various market demands.

With a focus on the mass market, the Baofeng brand also achieved satisfactory growth during the Period. Revenue generated from Baofeng brand amounted to RMB113.0 million for the Period, representing an increase of 40.1% from RMB80.6 million in the corresponding period of 2011.

Brand Licensee Business

Leveraging on the partnership with NBA China which was formed last year, the Group continued to explore the footwear market for men, including slippers, sandals and casual footwear. At the 2012 Spring/Summer and Fall/Winter sales fairs, the NBA brand successfully attracted a group of new distributors who are engaged in selling sports or male products to join our retail network. During the Period, the brand licensee business recorded revenue of RMB8.7 million. In addition, at the end of May 2012, the Company announced that in order to further deepen the cooperation with NBA China, both parties have reached preliminary agreement to establish two NBA concept stores in Beijing this September, which will be run by Baofeng Modern. If the plan materialises, it will mark a new milestone for the Group, which will make its first foray into the self-operation retail business. It is expected to further broaden our source of income, as well as to foster the development of vertical industry chain and margin potential, so as to improve gross profit and net profit margin. If the trial operation of the concept store receives warm response from the market, the Group will open more concept stores in other cities of China. The concept store will focus on the licensed NBA brand products including slippers, sandals and casual footwear, complemented with other NBA periphery products such as towels and water bottles, etc. Furthermore, the brand will be introduced to the Group's sales points in Southeast Asia. With the popularity of NBA in the Southeast Asian countries, the brand is expected to be warmly received there and achieve higher profit for the Group.

In addition, the Group signed license agreements with FashionTV ("FTV") and SpongeBob at the beginning of the year, and both are at the stage of design approval and are expected to launch their Fall/Winter series in the second half of 2012. FTV, an international fashion brand, is a leading international television channel dedicated to the world of fashion and lifestyle. We believe that the brand will help to enhance the reputation of the Group and upgrade our products, driving more sales for own branded business. Furthermore, given the lovely image of the cartoon characters of SpongeBob (an American animated television series), the cartoon is popular among children all over the world, SpongeBob branded products will help the Group to explore the children footwear market. It will also diversify the Group's product mix and further broaden our source of income.

Overseas Business

Baofeng Modern has made great efforts in exploring the Southeast Asian market. As of the end of June 2012, the Group has successfully established our market presence in the four economic powerhouses of Southeast Asia, i.e. Indonesia, the Philippines, Singapore and Malaysia. The first batch of Baofeng Modern footwear arrived at Indonesia in early June 2012, marking the first step of overseas market expansion. To make its entry into the Indonesia market, the Group cooperated with local distributor who is well-experienced and scalable, with wide distribution network, including the world renowned retail group – the Parkson. The first batch of products will be put on sale in Jakarta (the capital of Indonesia) and Surabaya (one of its major cities), and will subsequently expand into the other cities of Indonesia depending on its market response.

In addition, the Group's first Boree store in Southeast Asia was also officially opened in June 2012 in Manila, the capital of the Philippines, further expanding its presence in overseas market and retail network. As the market response was positive since the opening of our first store, Baofeng Modern has reached an agreement with the distributor to further increase our coverage in the Philippine market by establishing four more retail sales points in other cities, namely Makati Landmark and North Mall in Makati City, Trinoma Landmark in Quezon City and Mega Mall in Pasig City, all being trendy shopping malls with robust traffic flow.

Furthermore, after our overseas expansion into the Indonesian and Philippine markets, Baofeng Modern also entered into preliminary agreements with distributors in Singapore and Malaysia in June of the same year. The Group is currently discussing with the distributors about setting up sales points in a number of renowned shopping centers with robust traffic flow, such as Century Square, Liang Court Shopping Centre and Lot One in Singapore, as well as Isetan, Metrojaya and Parkson in Malaysia. The Group considers that this overseas business segment will bring positive revenue income for Baofeng Modern, since slippers and sandals are essential footwear for people there during hot and humid climates all year round.

Distribution Network

As of 30 June 2012, the number of sales points of the Group has increased to 1,000 (as of 31 December 2011: 908), which are located at places such as department stores, shopping centers, specialty stores, supermarkets and megastores. During the Period, leveraging the licensed NBA branded products, the Group added a new type of sales points. The Group has entered into major chained sportswear stores in China, including Sport 100, Baowei, Baoyuan, Baomin and other retail sportswear stores, adding more choices of types and locations to existing sales points. Furthermore, the Group will open another Boree store at Causeway Bay, Hong Kong in September 2012. Given that Causeway Bay is a favorable shopping destination for both local people and tourists, the store will further promote the reputation of the Group and our brands. Looking forward, the Group will continue to expand our business coverage, with a target of increasing our sales points in China to 5,000 within five years.

Original Equipment Manufacturer ("OEM") Business

During the Period, the Group's OEM business maintained stable growth. Revenue generated from the OEM business amounted to RMB326.1 million during the Period (2011: RMB310.4 million), representing an increase of 5.0% as compared with that of the corresponding period last year. The Group will continue to maintain good relationship with existing clients and strategically maintain stable growth in this business.

Marketing Campaigns

During the Period, Baofeng Modern continued to launch effective marketing campaigns to enhance the market recognition of our own brands. In addition to normal marketing campaigns, the Group became the exclusive title sponsor for Mayday's Noah's Ark World Tour Concert in Quanzhou (a renowned Asian pop music band) during the Period, stirring up flame of passion with fashion. Mayday is an internationally famous band from Taiwan with five members. They have released a number of albums and performed numerous concerts since their debut. This exclusive title sponsorship of

Mayday concert in Quanzhou not only enhanced Baofeng Modern's recognition among the young consumers in China, but also reinforced our leading position and brand image of being fashionable and trendy. Furthermore, the second season of "Selection of Baoren Rui Lady" jointly organised by the Group and Rayli, a famous fashion magazine in Beijing, was concluded successfully during the Period. The selection helped to effectively enhance the leisure and fashionable image of the Group's own brands.

Introducing Strategic Investor

During the Period, the Company entered into an agreement with Asia Equity Value Ltd. (the "Subscriber"), pursuant to which the Subscriber subscribed for the convertible notes in an aggregate principal amount of HK$176.0 million with the final redemption date falling on 21 June 2015, which will be convertible into fully paid ordinary shares of US$0.01 each in the capital of the Company at the conversion price of HK$1.31 per share at the discretion of the Subscriber. Under the agreement, the Company also issued to the Subscriber warrants which will carry the rights to subscribe for 62,026,431 shares at the subscription price of HK$1.53 per share at any time during the five years from 22 December 2012 to 22 December 2017 at the discretion of the Subscriber. Assuming full exercise of the warrants, the net proceeds which will be received by the Company are estimated to be HK$94.9 million.

The aforesaid investment not only provided sufficient capital for the Group to expand businesses, but also strengthen the market competitiveness of the Group. The proceeds from the investment, together with our internal fund, will be used to support the Group's medium-to-long term development plan, which includes:

1) to consolidate the position of own branded business and continue to build up our leading position in the industry;
2) to continue to form strategic partnership with other brands to enrich our brand portfolio and become a multi-brand fashion operator of slippers, sandals and casual footwear;
3) to construct an additional production base to meet the development needs over the next decade;
4) to build a new multi-functional headquarters in Quanzhou to meet the continuous expansion of business;
5) to further expand business in Southeast Asia;
6) to establish multi-brand flagship stores in first and second-tier cities in Mainland China, Hong Kong and Macau, so as to develop self-operated retail business; and
7) to fund potential cooperation schemes for speeding up our entry into the self-operated retail business.

Please refer to the section headed "Future Prospects" for the detailed future plans.

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2012	2011	Increase/
	RMB'000	RMB'000	(decrease)
	(unaudited)	(unaudited)	%change
Revenue (Total)	**730,524**	594,920	22.8%
Revenue (Boree Products)	**282,806**	203,855	38.7%
Revenue (Baofeng Products)	**112,950**	80,623	40.1%
Revenue (Brand Licensee business)	**8,710**	–	N/A
Revenue (OEM business)	**326,058**	310,442	5.0%

For the Period under review, the revenue of the Group increased by 22.8% to RMB730.5 million as compared with that of the corresponding period last year. Revenue from Boree and Baofeng branded products increased by 38.7% to RMB282.8 million and 40.1% to RMB113.0 million respectively as compared with that of the corresponding period last year. Apart from the expansion from distribution network, the growth was also attributable to the introduction of more diversified and high-end designs for footwear and the constant efforts in promotion, which has continuously enhanced the market recognition of our own brands, resulting in a growth in sales. The business growth from the OEM business remained stable and the revenue from the OEM business increased by 5.0% as compared with that of the corresponding period last year. During the Period, the newly introduced Brand Licensee business contributed RMB8.7 million to the revenue of the Group.

Selling and Distribution Costs

During the Period, selling and distribution costs increased by 58.6% to RMB50.6 million as compared with that of the corresponding period last year (2011: RMB31.9 million), which accounted for 6.9% (2011: 5.4%) of the Group's revenue. The increase was primarily attributable to the expenses incurred by our aggressive advertising and marketing efforts, as well as the royalty fees for the newly introduced Brand Licensee business.

General and Administrative Expenses

General and administrative expenses recorded a year-on-year increase of 25.9% to RMB37.2 million for the six months ended 30 June 2012 (2011: RMB29.6 million) as compared with that of the corresponding period last year, which accounted for 5.1% (2011: 5.0%) of the Group's revenue. The increase was mainly due to the increase in the number of management personnel, share option expense (no such expense for the corresponding period last year) and professional fees arising from the issue of convertible notes during the Period.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to RMB128.7 million (2011: RMB32.7 million). As at 30 June 2012, cash and bank balances were RMB984.2 million, representing a net increase of 41.7% as compared with RMB694.8 million as at 31 December 2011. The interest-bearing bank borrowings of the Group as at 30 June 2012 was in a sum of RMB58.5 million (31 December 2011: RMB383.9 million). All bank loans were repayable within one year.

Pledge of Assets

As at 30 June 2012, the Group secured its bills payables by the pledge of its time deposits amounting to RMB332,000. The Group also secured its bank borrowings by the pledge of the Group's trade receivables amounting to RMB22,358,000. At 31 December 2011, the secured bank loans of the Group were secured by the pledge of the Group's bank deposits of RMB382,004,000. During the period ended 30 June 2012, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

Contingent Liabilities

As at 30 June 2012 and 31 December 2011, the Group had no material contingent liabilities.

Profit Attributable to Owners of the Company

For the six months ended 30 June 2012, the total consolidated profit attributable to owners of the Company amounted to RMB79.7 million, representing a decrease of 16.1% as compared with that of the corresponding period last year (2011: RMB95.0 million). Comparing the result of the Group for the Period with that of the corresponding period in 2011, there was a significant item affecting the net profit of the Group, namely the "Fair value loss on financial liabilities at fair value through profit or loss" arising from the convertible notes issued during the Period.

The details are set out as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the Period attributable to owners of the Company	**79,740**	95,017
Fair value loss on financial liabilities at fair value through profit or loss	**32,991**	–
Finance cost from convertible notes/exchangeable notes	**248**	1,210
Profit from Core Operations	**112,979**	96,227
Growth	**17.4%**	

Taking into account of the above significant items, the profit from the core operations of the Group for the Period as set out above (the "Profit from Core Operations") was RMB113.0 million, representing an increase of 17.4% as compared with that of the corresponding period in 2011.

Foreign Exchange Risk

During the Period, 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. Management of the Group monitors the foreign exchange risk and will consider hedging significant foreign currency risk exposure should the need arise. During the Period, considering the appreciation of Renminbi, the Group has entered into foreign exchange derivative transactions to manage the foreign exchange risk.

Gearing Ratio

As at 30 June 2012, the gearing ratio of the Group was 24.0% (as at 31 December 2011: 34.3%). Gearing ratio was calculated as total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As of 30 June 2012, the Group had a total of 2,639 employees (as at 31 December 2011: 2,636 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 utilisation of the net proceeds as at 30 June 2012 is set out as follows:

Nature	Amount raised RMB'000	Amount utilised RMB'000
To increase production capacity	135,683	61,532
Marketing and advertising expenses	96,917	76,091
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	3,671
To establish flagship shops and showrooms	19,383	794
To strengthen the distribution resource planning system	19,383	1,912
General working capital	38,767	38,767
Total:	387,666	182,767

FUTURE PROSPECTS

To accommodate with our medium-long term development, Baofeng Modern has developed a detailed expansion plan, with an aim to enhance our market competitiveness and increase our market shares in the slippers, sandals and casual footwear market, as well as to diversify the Group's income streams both vertically and horizontally. The expansion plan is summarised as follows:

1) **Consolidate the Position of Own Branded Business and Continue to Build up Our Leading Position in the Industry**

In addition to effective marketing campaigns, the Group will also upgrade our self-owned brands by constantly improving the quality and designs of our products, so as to secure a prominent status in the fashionable slippers, sandals and casual footwear industry. Meanwhile, the Group will consistently implement the strategy of "Driving the lower-end products through higher-end products; diversifying markets through different brands of various classes and categories", that is to promote the sales of Baofeng brand by the market recognition of Boree brand and that of own branded products by other licensed branded products, with an aim to maintain a leading position in the industry.

2) **Continue to Form Strategic Partnership with Other Brands to Enrich Our Brand Portfolio and Become a Multi-brand Fashion Operator of Slippers, Sandals and Casual Footwear**

Baofeng Modern established the Brand Licensee Business unit in 2012, which is dedicated to cooperating with international brands for licensed operation in Mainland China. Leveraging on the influence of NBA, the Group will tap into the sports casual footwear market. With the fashionable high-end products of FTV, the Group is expected to make its foray into the high-end women's footwear market in China. Meanwhile, given the popularity of SpongeBob, the Group will explore the children's and teenager's footwear market. Every year, the Group will continue to seek for cooperation with new brands by way of licensing or acquisition, so as to further enrich our brand portfolio. The Group will also consider if these brands fit in with our fashionable and leisure brand image, with a view to developing Baofeng Modern into a multi-brand fashion operator of slippers, sandals and casual footwear through constant diversification of brand portfolio.

3) **Construct an Additional Production Base to Meet the Development Needs Over the Next Decade**

In view of the increasing difficulties in recruitment in coastal cities and the dramatic rise in labour costs, the Group will, in addition to our existing production base in Quanzhou, the PRC, construct another production base with production and logistics equipment, so as to ensure the demand for increasing production capacity over the next decade and to cope with the constantly increased number of orders received. The production base will be located in an inland province in the PRC adjacent to Fujian Province with abundant and low cost labour supply. The new industrial park is expected to commence construction in 2013, which will be divided into three to four phases, and expected to satisfy the business development of Baofeng Modern over the next decade.

4) Build a New Multi-functional Headquarters in Quanzhou to Meet the Continuous Expansion of Business

To facilitate business expansion both horizontally and vertically in the future, the Company needs a larger building for its headquarters with more space to accommodate the expansion of all departments such as the administration, sales, research and development, product display, staff training and other operational departments. Therefore, the Group plans to construct a new headquarters building to replace the existing one which is sitting next to the current production plant. Upon completion, the new headquarters will be located in Quanzhou, Fujian Province, and will become the service and control hub covering the nationwide and overseas markets.

5) Further Expand Business in Southeast Asia

As to business development in Southeast Asian market, the Group's products are expected to make full market-entry into the Philippines, Indonesia, Singapore and Malaysia by the end of 2012. We expect that there will be great potential demand for slippers and sandals from these countries with their huge population and hot climate all year round. Being committed to exploring these markets, the Group will, in addition to existing distributors, seek further cooperation with other local scalable distributors with extensive experience while carrying out marketing campaigns in local cities. The Group aims to build our brands into famous names in Asia and targets to cover most of the Southeast Asian countries by 2015.

6) Establish Multi-brand Flagship Stores in First and Second-tier Cities in Mainland China, Hong Kong and Macau, so as to Develop Self-operated Retail Business

Meanwhile, the Group plans to establish multi-brand flagship stores in first and second-tier cities in Mainland China, Hong Kong and Macau, which will display and sell the diversified brands and products of Baofeng Modern, including two self-owned brands (namely Boree and Baofeng), three licensed brands (namely NBA, FTV and SpongeBob), and the Swarovski Elements series, as well as more new co-brands to be introduced in the future. These flagship stores play an important role in promoting our brand and corporate image. Furthermore, these multi-brand flagship stores will be operated by Baofeng Modern itself, marking our first step into the self-operated retail business.

7) Seek for Appropriate Partners to Speed up Our Entry into the Self-operated Retail Business

The Group will also earmark some funds for potential cooperation schemes with existing distributors who have well-established distribution network in China, so as to speed up our entry into the self-operated retail business.

In addition to the above-mentioned key projects, the Group will also continue to optimize our management, sales, human resources and other aspects to facilitate the overall development. Lastly, the Group aims to bring better returns to the shareholders of the Company through sound strategies and proactive expansion plans both at home and abroad.

Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

At 30 June 2012, 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%

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 30 June 2012, 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 14 to the condensed consolidated financial statements.

The following table discloses the outstanding share options under the Share Option Scheme as at 30 June 2012:

Name or Category of participants	Date of grant (Note 1)	Number of options: Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	Outstanding as at 30 June 2012	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		

Name or Category of participants	Date of grant (Note 1)	Number of options: Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	Outstanding as at 30 June 2012	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	–	–	–	(500,000)	8,250,000	B	1.18
	30/8/2011	7,250,000	–	–	–	(500,000)	6,750,000	C	1.18
Sub-total		17,500,000	–	–	–	(1,000,000)	16,500,000		
Total		35,000,000	–	–	–	(1,000,000)	34,000,000		

Share Option Scheme (continued)

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.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2012, 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 (1)	Beneficial owner/Other	473,876,157 (L)	47.59%
Asia Equity Value Ltd.	Beneficial owner	228,377,576 (L)	22.94%
		32,000,000 (S)	3.21%
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 (5)	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 are interested in 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. Best Mark beneficially owns 441,876,157 Shares and is interested in 32,000,000 Shares as a result of its right under a stock borrowing agreement to the return of 32,000,000 Shares it has lent.

(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 owns 33.33% of CITIC Capital China Mezzanine Fund Limited ("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. CITIC Limited owns 55% of CITIC Capital Holdings Limited and 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.

(6) CITIC Group owns 55% of CITIC Capital Holdings Limited and 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.

(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 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" and "S" denotes the person's long and short position respectively 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 30 June 2012, 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.

Interim Dividend

The Board has resolved to pay an interim dividend of HK2.5 cents per ordinary share in respect of the six months ended 30 June 2012. The interim dividend will be distributed on or about 12 October 2012 to the shareholders whose names appear on the register of members of the Company on 25 September 2012.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 21 September 2012 to Tuesday, 25 September 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 20 September 2012.

Corporate Governance

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

The Company complied with all the code provisions and a majority of the recommended best practices under the Code on Corporate Governance Practices ("Old Code") (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) from 1 January 2012 to 31 March 2012 and the existing Corporate Governance Code and Corporate Governance Report ("New Code") set out in Appendix 14 to the Listing Rules from 1 April 2012 to 30 June 2012 so far as they are applicable throughout the Period under review.

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 Directors. The Company made specific enquiry of all Directors who confirmed that they have complied with the required standards set out in the Model Code throughout the Period under review.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities throughout the Period under review.

Audit Committee

An audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the Old Code from 1 January 2012 to 31 March 2012, and the New Code from 1 April 2012 to 30 June 2012. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises three 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 unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the audit committee.

On behalf of the Board

ZHENG Liuhe
Chairman

Hong Kong
31 August 2012

	Notes	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
REVENUE	4	**730,524**	594,920
Cost of sales		**(478,578)**	(397,404)
Gross profit		**251,946**	197,516
Other income and gains	4	**2,407**	3,241
Selling and distribution costs		**(50,632)**	(31,883)
General and administrative expenses		**(37,242)**	(29,575)
Other operating expenses		**(8)**	(3,755)
Fair value loss on financial liabilities at fair value through profit or loss	13	**(32,991)**	–
Profit from operations		**133,480**	135,544
Finance costs	5	**(3,437)**	(5,019)
PROFIT BEFORE TAX	6	**130,043**	130,525
Income tax expense	7	**(50,303)**	(35,508)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		**79,740**	95,017
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
– Basic (RMB)		**0.08**	0.10
– Diluted (RMB)		**N/A**	0.10

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

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**79,740**	95,017

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**96,461**	89,758
Prepaid land lease payments		**36,433**	36,846
Deposit		**125**	250
Prepaid rent		**6,050**	–
Total non-current assets		**139,069**	126,854
CURRENT ASSETS			
Inventories		**43,484**	69,689
Trade receivables	10	**142,863**	122,705
Prepayments, deposits and other receivables		**18,244**	13,462
Value added tax recoverable		**–**	5,869
Pledged deposits	11,12	**332**	382,004
Cash and bank balances		**984,231**	694,816
Total current assets		**1,189,154**	1,288,545
CURRENT LIABILITIES			
Trade and bills payables	11	**57,642**	60,488
Deposits received, other payables and accruals		**29,780**	33,610
Value added tax payable		**1,630**	–
Interest-bearing bank borrowings	12	**58,450**	383,910
Convertible notes	13	**155,824**	–
Warrants	13	**8,454**	–
Tax payable		**28,142**	21,463
Total current liabilities		**339,922**	499,471
NET CURRENT ASSETS		**849,232**	789,074
TOTAL ASSETS LESS CURRENT LIABILITIES		**988,301**	915,928
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,774**	–
Net assets		**986,527**	915,928
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**66,126**	66,126
Reserves		**920,401**	849,802
Total equity		**986,527**	915,928

For the six months ended 30 June 2011

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

For the six months ended 30 June 2012

		Attributable to owners of the Company									
			Reserves								
	Notes	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Statutory surplus fund RMB'000	Exchange fluctuation reserve RMB'000	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 2012 (audited)		**66,126**	**360,781**	**129,193**	**64,825**	**155**	**284**	**2,103**	**292,461**	**849,802**	**915,928**
Profit for the period and total comprehensive income for the period		–	–	–	–	–	–	–	79,740	79,740	79,740
Equity-settled share option arrangements	14	–	–	–	–	–	–	3,036	–	3,036	3,036
Final 2011 dividend	8	–	–	–	–	–	–	–	(24,360)	(24,360)	(24,360)
Increase in contributed surplus under Stock Borrowing Arrangement	13	–	–	12,183	–	–	–	–	–	12,183	12,183
Transfer to statutory surplus fund		–	–	–	13,139	–	–	–	(13,139)	–	–
At 30 June 2012 (unaudited)		**66,126**	**360,781**	**141,376**	**77,964**	**155**	**284**	**5,139**	**334,702**	**920,401**	**986,527**

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FLOWS FROM/(USED IN):		
Operating activities	**128,714**	32,676
Investing activities	**370,240**	(5,696)
Financing activities	**(209,539)**	295,871
NET INCREASE IN CASH AND CASH EQUIVALENTS	**289,415**	322,851
Cash and cash equivalents at beginning of period	**694,816**	327,881
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**984,231**	650,732
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**984,231**	650,732

1. CORPORATE INFORMATION

Baofeng Modern International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal places of business are located in Huoju Industrial Zone, Quanzhou, Fujian Province, the People's Republic of China ("PRC") and 20th Floor, The Pemberton, 22-26 Bonham Strand, Sheung Wan, Hong Kong. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011.

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

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

2. BASIS OF PREPARATION

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

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except for the following new accounting policy and new and revised International Financial Reporting Standards ("new IFRSs") adopted by the Group.

Convertible Notes and Warrants

On initial recognition, the convertible notes and warrants are designated as financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in the income statement excludes any interest paid on the financial liabilities. The transaction costs relating to the convertible notes and warrants are recognised immediately in the income statement.

Except for the above new accounting policy, in the current period, the Group has adopted the following new IFRSs which are effective for the Group's financial year beginning on 1 January 2012.

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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

3. OPERATING SEGMENT INFORMATION

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

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

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

(c) the Brand Licensee Business segment manufactures and trades licensed slippers and footwear products ("Brand Licensee Business"); and

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

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, fair value loss on financial liabilities at fair value through profit or loss, finance costs as well as corporate and unallocated expenses are excluded from such measurement.

Period ended 30 June 2012

	Boree Products RMB'000 (unaudited)	Baofeng Products RMB'000 (unaudited)	Brand Licensee Business RMB'000 (unaudited)	OEM RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue					
Sales to external customers	**282,806**	**112,950**	**8,710**	**326,058**	**730,524**
Segment results	**87,706**	**39,310**	**1,788**	**72,510**	**201,314**
Reconciliation:					
Interest income					**2,067**
Other unallocated income and gains					**340**
Corporate and other unallocated expenses					**(37,250)**
Fair value loss on financial liabilities at fair value through profit or loss					**(32,991)**
Finance costs					**(3,437)**
Profit before tax					**130,043**

3. OPERATING SEGMENT INFORMATION (continued)

Period ended 30 June 2011

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

Geographical Information

Revenue from external customers

	Six months ended 30 June **2012** **RMB'000** **(unaudited)**	2011 RMB'000 (unaudited)
PRC (principal place of operations)	**605,533**	463,353
United States of America	**113,991**	119,817
South America	**3,782**	1,617
Europe	**3,130**	2,658
South East Asia	**2,136**	3,782
Other countries	**1,952**	3,693
	730,524	594,920

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Manufacture and sale of goods	**730,524**	594,920
Other income and gains		
Interest income	**2,067**	2,948
Rental income	**72**	69
Subsidy income*	**268**	–
Others	**–**	224
	2,407	3,241

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

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans repayable within five years	**3,189**	3,809
Interest expenses on convertible notes	**248**	–
Interest expenses on exchangeable note	**–**	1,210
	3,437	5,019

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold*	**478,578**	397,404
Depreciation*	**4,729**	2,786
Amortisation of prepaid land lease payments	**413**	106
Minimum lease payments under operating leases in respect of land and buildings*	**3,217**	2,479
Employee benefit expenses* (including directors' remuneration)		
Wages and salaries	**59,541**	59,793
Equity-settled share option expense	**3,036**	–
Staff welfare	**3,434**	2,988
Pension scheme contributions	**5,179**	4,350
	71,190	67,131
Loss on disposal of items of property, plant and equipment	**–**	18
Research and development costs**	**1,390**	1,012

* The cost of inventories sold for the reporting period ended 30 June 2012 includes approximately RMB51,858,000 (2011: RMB50,622,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the reporting period (2011: 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.

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – Mainland China		
Charge for the period	**46,264**	36,440
Under/(Over) provision in prior years	**2,265**	(3,750)
Deferred – Mainland China	**1,774**	2,818
Total tax charge for the period	**50,303**	35,508

8. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividend paid during the period		
Final dividend in respect of the financial year ended 31 December 2011 of HK3.0 cents (2011: Nil) per ordinary share	**24,360**	–
Proposed interim dividend		
Interim 2012 – HK2.5 cents (2011: HK2.0 cents) per ordinary share	**20,283**	16,632

An interim dividend of HK2.5 cents per ordinary share for the period ended 30 June 2012 will be paid on or about 12 October 2012 to the shareholders whose names appear on the register of members of the Company on 25 September 2012. The interim dividend was declared after the period ended 30 June 2012, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the Company and the number of ordinary shares of 995,720,000 (2011: weighted average of 961,325,967) in issue during the six months ended 30 June 2012.

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

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2012 in respect of a dilution as the exercise price of the share options and warrants and the conversion price of the convertible notes of the Company outstanding during the period were higher than the average market price of the Company's ordinary shares for the period and accordingly, there is no dilutive effect on the basic earnings per share.

The calculation of 2011 diluted earnings per share amounts was based on the consolidated profit for the period attributable to owners of the Company, adjusted to reflect the interest on the exchangeable note, where applicable (see below). The number of ordinary shares used in the calculation was the number of ordinary shares as used in the basic earnings per share calculation.

No adjustment had been made to the basic earnings per share amounts presented for the period ended 30 June 2011 in respect of a dilution as the exchangeable note outstanding during the period ended 30 June 2011 had an anti-dilutive effect on the basic earnings per share amount presented.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (continued)

The calculations of 2011 diluted earnings per share are based on:

	Six months ended 30 June 2011 RMB'000 (unaudited)
Earnings	
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	95,017
Interest on exchangeable note	1,210
Consolidated profit attributable to owners of the Company before interest on exchangeable note	96,227

10. TRADE RECEIVABLES

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 3 months	**127,442**	122,225
3 to 6 months	**13,921**	480
Over 6 months	**1,500**	–
	142,863	122,705

As at 30 June 2012, the Group pledged trade receivables of approximately RMB22,358,000 (31 December 2011: Nil) to secure the bank borrowings granted to the Group (note 12).

11. TRADE AND BILLS PAYABLES

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 3 months	**56,534**	60,488
3 to 6 months	**1,108**	–
	57,642	60,488

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms. The bills payables of RMB1,108,000 (31 December 2011: Nil) were secured by the pledge of the Group's time deposits amounting to RMB332,000 as at 30 June 2012 (31 December 2011: Nil).

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Current		
Bank loans – unsecured	**38,400**	65,000
Bank loans – secured	**20,050**	318,910
	58,450	383,910
Analysed into:		
Bank loans repayable within one year	**58,450**	383,910

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

Six months ended 30 June 2012	3.166% – 7.888% per annum
Year ended 31 December 2011	1.486% – 6.626% per annum

(b) At 30 June 2012, the secured bank loans of the Group were secured by the pledge of the Group's trade receivables amounting to RMB22,358,000 (31 December 2011: Nil).

At 31 December 2011, the secured bank loans of the Group were secured by the pledge of the Group's bank deposits of RMB382,004,000. During the period ended 30 June 2012, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

13. CONVERTIBLE NOTES AND WARRANTS

Pursuant to a subscription agreement entered into with Asia Equity Value Ltd (the "Subscriber"), on 8 June 2012 (the "Subscription Agreement"), the Company issued a 7% senior guaranteed convertible notes with a principal amount of HK$176,000,000 (i.e. RMB143,470,000) (the "Convertible Notes") to the Subscriber on 21 June 2012 (the "Issuance Date"). In addition, pursuant to the Subscription Agreement, the Company also issued to the Subscriber warrants ("Warrants") which carry the rights to subscribe for 62,026,431 new ordinary shares of the Company as a condition to the issuance of the Convertible Notes.

At the same time, Best Mark International Limited (the "Stock Lender"), a substantial shareholder of the Company, entered into a stock borrowing agreement ("Stock Borrowing Agreement") with the Subscriber, pursuant to which the Stock Lender lent the Subscriber 32,000,000 ordinary shares of the Company on the Issuance Date at nil consideration.

Convertible Notes

The Convertible Notes give the holder of the Convertible Notes ("Notes Holder") the right (the "Conversion Right") to convert all or any part of the outstanding principal amount of the Convertible Notes into fully paid ordinary shares of US$0.01 each of the Company at HK$1.31 per share (the "Conversion Price"). The Conversion Price is subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the Convertible Notes. Notes Holder can exercise the Conversion Right from time to time during the conversion period from the issuance date to the maturity date. The Convertible Notes shall mature on the third anniversary of the Issuance Date (i.e. 21 June 2015) (the "Maturity Date").

The Company shall redeem the principal amount of the Convertible Notes in equal installments of HK$16,000,000 (i.e. RMB13,043,000) on each of dates falling six, nine, twelve, fifteen, eighteen, twenty-one, twenty-four, twenty-seven, thirty, thirty-three, and thirty-six months after the Issuance Date (each a "Repayment Date") and the first Repayment Date being the 180th day following the Issuance Date.

If on any date (the "Call Exercise Date") after the Issuance Date, the volume weighted average price per share, is greater than 160% of the reference market price as mentioned in the Subscription Agreement for each of the 20 consecutive trading days immediately preceding the Call Exercise Date and provided that certain standard equity conditions are and remain satisfied during such period, the Company may issue a call exercise notice to require the Subscriber to exercise the right of conversion attached to the Convertible Notes in whole or in part.

The Company is obliged to pay interest on the Convertible Notes at a rate of 7% per annum on each Repayment Date. Interest is computed on the basis of a 360-day year for the actual number of days lapsed.

The principal repayment amount and accrued but unpaid interest thereto shall be payable either i) in whole in cash; ii) in whole in shares; or iii) in a combination of cash and shares, provided that the Company may only pay such installments in shares, in accordance to certain terms and conditions as mentioned in the Subscription Agreement.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes (continued)

Upon the occurrence of any events of defaults or certain events as mentioned in the Subscription Agreement, the Notes Holder may elect to require the Company to redeem all of the outstanding principal amount under the Convertible Notes. As long as the Notes Holder does not elect to require the Company to redeem the Convertible Notes before the Maturity Date due to the occurrence of the events aforementioned, the Company is obliged to pay interest at 7% per annum until the Convertible Notes is converted or redeemed, whichever date is earlier.

The Convertible Notes included a debt instrument with embedded derivatives. Upon initial recognition, the Convertible Notes are designated as financial liabilities at fair value through profit or loss. The fair value of the Convertible Notes is remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statement.

Warrants

The Warrants gives the holder of the Warrants ("Warrants Holder") the rights to subscribe for 62,026,431 new shares of the Company's ordinary shares. The initial subscription price of the Warrants is HK$1.53 per share, subject to anti-dilution adjustment for stock dividends, stock splits, dilutive securities issuances and other customary adjustment events from time to time in accordance with the terms and conditions of the Warrants. The subscription period of the Warrants commences from 6 months after the Issuance Date (i.e. 22 December 2012) ("Warrants Subscription Date"), and will mature on the fifth anniversary from the Warrants Subscription Date (i.e. 22 December 2017). Upon full subscription of the Warrants, a total of 62,026,431 new shares will be issued and the net proceeds upon full subscription are approximately HK$94,900,000 (i.e. RMB77,360,000).

Upon the occurrence of any events of defaults or certain events as mentioned in the Subscription Agreement, the Warrants Holder may elect to require the Company to redeem or purchase all or a portion of its Warrants at a price as mentioned in the Subscription Agreement.

The Warrants are classified as derivatives and are accounted for as financial liabilities at fair value through profit or loss upon initial recognition. The fair value of the Warrants are remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statement.

Stock Borrowing

At the same time of the Subscriber entering into the Subscription Agreement, the Stock Lender, a substantial shareholder of the Company, entered into a Stock Borrowing Agreement with the Subscriber, pursuant to which the Stock Lender lent 32,000,000 of the Company's ordinary share to the Subscriber on the Issuance Date with no interest, consideration and collateral. The legal title of the shares will be returned to the Stock Lender on the second business day following the later of i) the date on which the principal and interest of the Convertible Notes have been redeemed and paid in full by the Company or ii) the date on which all Warrants have been exercised or expired.

The stock borrowing arrangement ("Stock Borrowing Arrangement") is considered as a deemed contribution to the Company from a shareholder and accounted for as an equity component. Upon initial recognition, the value of such contribution from the substantial shareholder is accounted for as a deemed contribution in the shareholder's equity. The carrying amounts of such contribution from the substantial shareholder is not remeasured in subsequent years.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Valuation of the Convertible Notes, Warrants and the Stock Borrowing Arrangement

At Issuance Date, the consideration received totaling HK$176,000,000 (i.e. RMB143,470,000) was allocated by the directors to Convertible Notes, Warrants and deemed contribution from a substantial shareholder under the Stock Borrowing Arrangement, 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, as follows:

	RMB'000
Financial liabilities at fair value through profit or loss:	
Convertible Notes	122,204
Warrants	9,083
Deemed contribution from a substantial shareholder under the Stock Borrowing Arrangement	12,183
Consideration received	143,470

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

	Convertible Notes RMB'000	Warrants RMB'000	Total RMB'000
Fair value at Issuance Date	122,204	9,083	131,287
Fair value loss/(gain) charged/(credited) to income statement during the period	33,620	(629)	32,991
Fair value at 30 June 2012	155,824	8,454	164,278

For the period ended 30 June 2012, the fair value of the Convertible Notes and Warrants were calculated using the binomial model and the inputs into the model were as follows:

Convertible Notes	
Stock price (HK$)	0.99
Conversion price (HK$)	1.31
Volatility (%)	42.672 – 44.517
Risk-free rate (% per annum)	0.107 – 0.245
Discount rate (% per annum)	5.708

Warrants	
Stock price (HK$)	0.99
Exercise price (HK$)	1.53
Volatility (%)	44.569
Risk-free rate (% per annum)	0.454

14. 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.

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

	Weighted average exercise price HK$ per share	Number of options
At 1 January 2012	1.18	35,000,000
Forfeited during the period	1.18	(1,000,000)
At 30 June 2012	1.18	34,000,000

No share options were granted and exercised, and 1,000,000 share options were forfeited during the period ended 30 June 2012.

14. SHARE OPTION SCHEME (continued)

The outstanding 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;
- 6,750,000 of such share options are vested on 30 August 2013 with an exercise period from 30 August 2013 to 29 August 2016; and
- 6,750,000 of such share options are vested on 30 August 2014 with an exercise period from 30 August 2014 to 29 August 2016.

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

30 June 2012

Number of options	Exercise price HK$ per share	Exercise period
34,000,000	1.18	30 August 2012 to 29 August 2016

The fair value of the share options granted during the year ended 31 December 2011 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 RMB3,036,000 during the period ended 30 June 2012.

The fair value of equity-settled share options granted during the year ended 31 December 2011 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.

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 34,000,000 share options outstanding under the Scheme, which represented approximately 3.4% 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 34,000,000 additional ordinary shares of the Company and additional share capital of HK$2,638,000 (equivalent to RMB2,150,000) and share premium of HK$37,482,000 (equivalent to RMB30,556,000), before issue expenses.

15. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value:

As at 30 June 2012

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Convertible Notes	–	155,824	–	155,824
Warrants	–	8,454	–	8,454

The Group did not have any financial liabilities measured at fair value as at 31 December 2011.

16. OPERATING LEASE ARRANGEMENTS

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

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within one year	**820**	1,804
In the second to fifth years, inclusive	**7,270**	–
	8,090	1,804

17. COMMITMENTS

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Contracted for capital commitment in respect of investment in Quanzhou Baofeng	**46,371**	65,171
Contracted for commitments in respect of:		
– advertising and consultancy services	**1,177**	689
– research and development	**–**	1,667
– property, plant and equipment	**–**	1,800
– products licences	**12,781**	7,020
– manufacturing and distributorship license	**23,402**	25,519
	37,360	36,695

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group is as follows:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Fees	**409**	396
Other emoluments:		
Salaries, allowances and benefits in kind	**1,142**	1,173
Equity-settled share option expense	**1,880**	–
Pension scheme contributions	**8**	–
	3,439	1,569

19. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Company repurchased its 506,000 ordinary shares at prices ranging from HK$0.85 to HK$0.88 per share at a total consideration of approximately HK$437,000 (equivalent to RMB356,000). The 506,000 repurchased ordinary shares were cancelled on 7 August 2012. The premium of approximately HK$398,000 (equivalent to RMB324,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$39,000 (equivalent to RMB32,000) was transferred from retained profits of the Company to the capital redemption reserve.

20. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 31 August 2012.