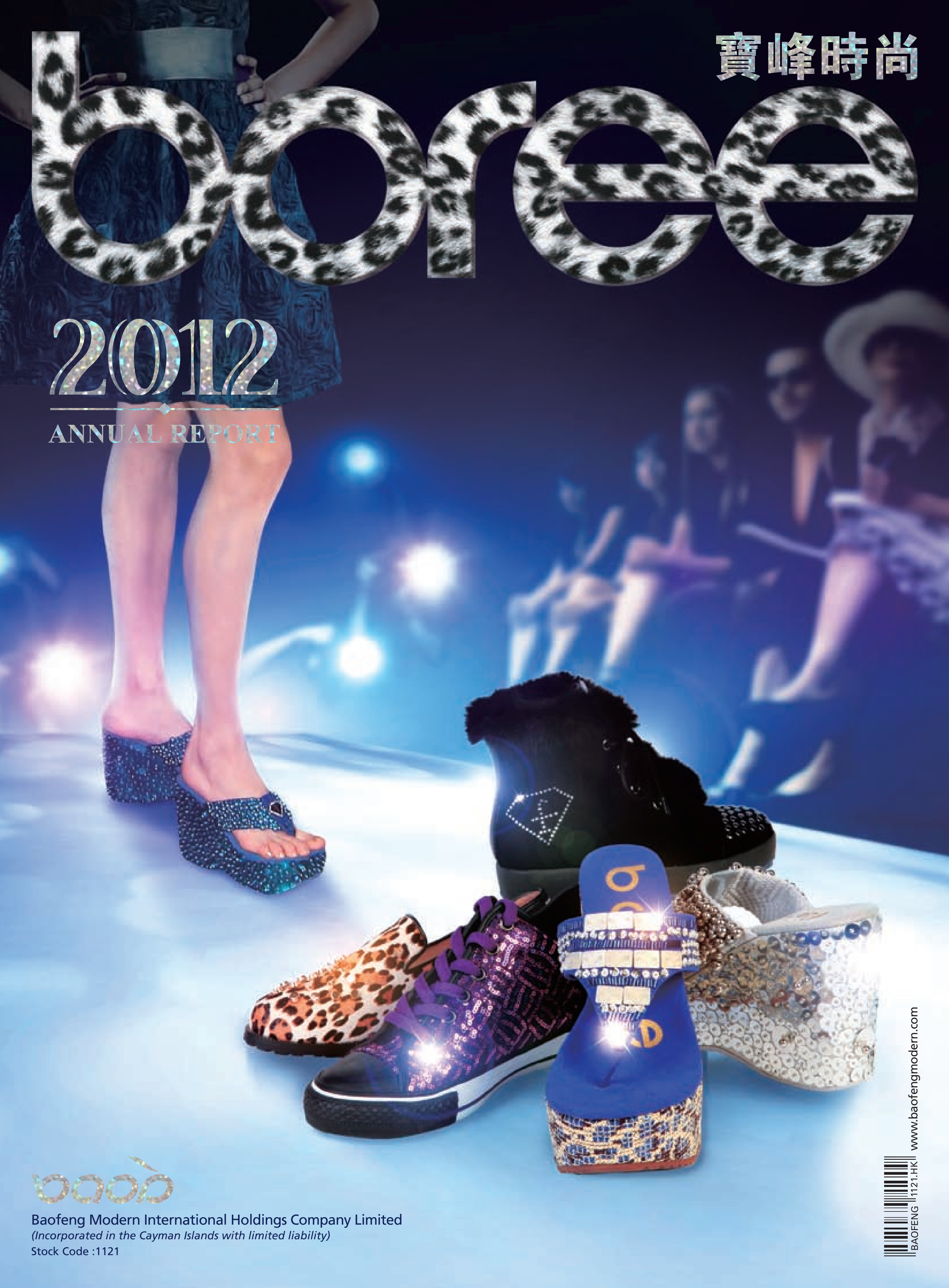

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2012 ANNUAL REPORT

Baofeng Modern International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code :1121

BAOFENG 1121.HK

www.baofengmodern.com

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

Designed & Produced by HeterMedia Services Limited

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4/F, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

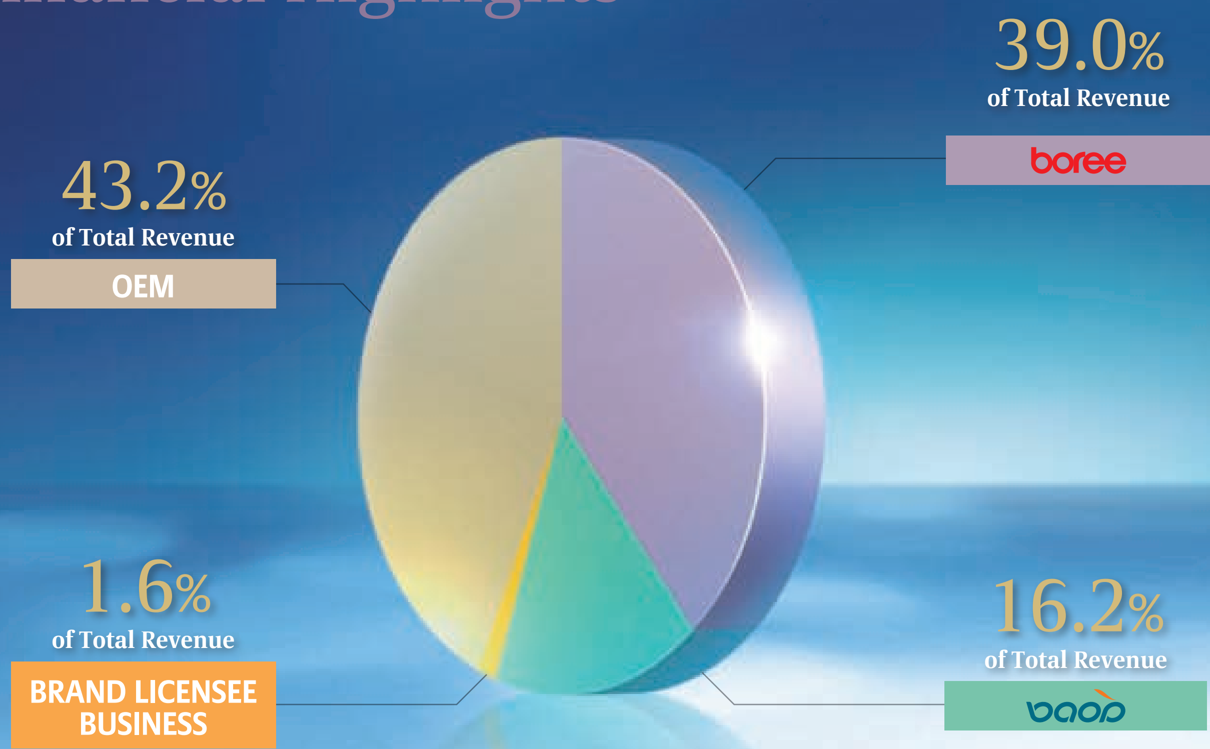
PRINCIPAL BANKERS

Bank of China
China Bank of Construction


boree

Contents

Financial Highlights



	2012 RMB million	2011 RMB million	% Change
Revenue (Boree)	527	402	+31%
Revenue (Baofeng)	219	167	+31%
Total Revenue	1,352	1,118	+21%
Profit from Core Operations	194	162	+20%

Five-Year Financial Summary

For the year ended 31 December

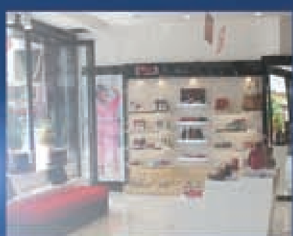
	2012	2011	2010	2009	2008
Profitability data (RMB million)					
Revenue	**1,351.5**	1,117.7	833.3	588.6	499.3
Gross profit	**466.0**	373.1	275.2	165.4	130.6
Operating profit	**242.3**	236.6	159.4	118.8	107.6
Profit for the year	**153.9**	160.7	114.2	70.1	58.2
Profitability ratios (%)					
Gross profit margin	**34.5%**	33.4%	33.0%	28.1%	26.2%
Operating profit margin	**17.9%**	21.2%	19.1%	20.2%	21.5%
Net profit margin	**11.4%**	14.4%	13.7%	11.9%	11.7%
Operating ratios (as a percentage of revenue) (%)					
Advertising and marketing expenses	**4.8%**	4.5%	4.6%	2.1%	0.7%
Assets and liabilities data (RMB million)					
Non-current assets	**150.6**	126.9	83.0	87.6	87.8
Current assets	**1,277.5**	1,288.5	477.8	342.8	260.2
Current liabilities	**368.4**	499.5	254.3	203.2	194.5
Non-current liabilities	**3.1**	0.0	0.0	3.5	0.0
Shareholders' equity	**1,056.6**	915.9	306.5	223.6	153.5
Asset and working capital data					
Current asset ratios (%)	**89.5%**	91.0%	85.2%	79.7%	74.8%
Current ratios (time)	**3.5x**	2.6x	1.9x	1.7x	1.3x
Gearing ratios (%)	**24.6%**	34.3%	36.6%	46.3%	54.8%

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

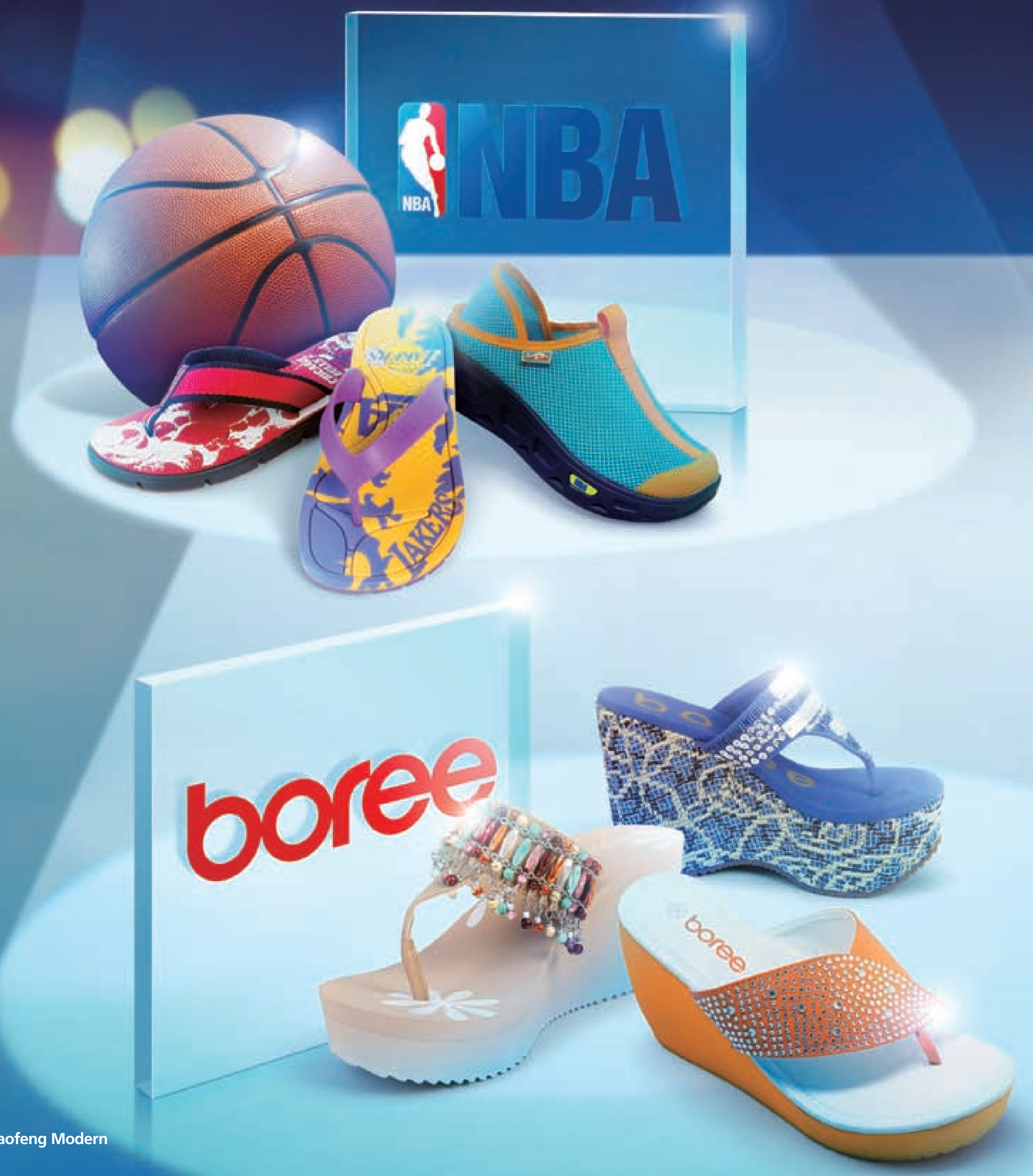
Our Distribution Network

Number of Point of Sales

Eastern Region	520
Southern Region	203
Western Region	138
Northern Region	147
Central Region	60
Total	**1,068**



Business Developments




fashiontv
boree
寶峰時尚
FashionTV X Boree
SpongeBob
SquarePants

Chairman's Statement

Dear Shareholders,

Amidst the backdrops of continuous unstable global economy and the slowdown of economic growth in China in 2012, many corporations recorded sluggish performance. With our strong and solid foundation, the Group on the contrary, has maintained growth momentum and achieved satisfactory results. Revenue for the year amounted to RMB1,351.5 million (2011: RMB1,117.7 million), representing a year-on-year growth of 20.9%. The profit from the core operations in 2012 increased by 19.6% to RMB193.6 million as compared with that of last year. The strong performance of Boree and Baofeng, our own brands, continued to be our key growth driver. The total revenue from these two brands increased from RMB569.5 million in 2011 to RMB745.5 million in 2012, representing an increase of 30.9%, and accounting for an higher percentage of 55.2% of the Group's total revenue. Apart from the growth in our own brands, the Group, as a multi-brand operator, was pleased to announce that our brand licensee business, which only commenced this year, has begun to contribute to our profits. The revenue from NBA and FashionTV ("FTV") for the year amounted to a total of RMB21.7 million. We will continue our success in business transformation to maintain our leading position in the markets of slippers, sandals and casual footwear in China.

Many investors are concerned that the European debt crisis would adversely affect the domestic exports business during the year. However, as a market leader, not only was our OEM business immune to the crisis, but we achieved a good annual revenue of RMB584.4 million, representing a year-on-year growth of 6.6%. Since the Group intends to allocate more resources to develop our own branded business instead of the OEM business, we strategically maintained the growth of OEM business at a single digit rate as in the past. We continued to optimize the OEM business by selecting orders which generate higher gross profit in order to enlarge our profit margin.

In 2012, the Group actively explored markets at home and abroad. By diversified promotional strategies, we were able to penetrate into different groups of customers, and further strengthen our leading position in the trendy slippers, sandals and casual footwear market. For instance, during the

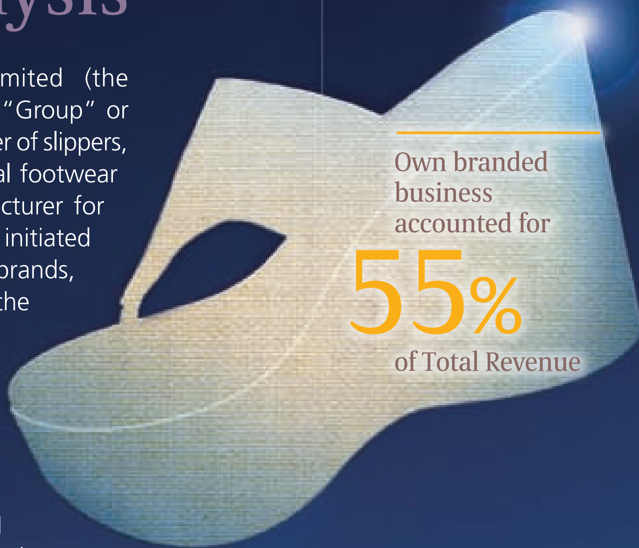
year, the Group became the exclusive title sponsor for Mayday's concert in Quanzhou and the official sponsor for the final contest of the 17th Annual "21st Century Cup" National English Speaking Competition, which helped to enhance our brand recognition among a wider scope of young consumers. In addition, we achieved encouraging progress in our overseas business. Since we set foot on the Southeast Asian market in mid-2012, the points of sales in those countries were growing steadily, all of which generate satisfactory sales performance.

Li Keqiang, the Premier of the State Council of the PRC, earlier announced policies in relation to China's urbanization and stimulation of domestic demand. The Group believes such policies would provide a more favorable environment for expanding our domestic sales. Looking into 2013, with the advantage of "multi-brands in multi-markets" in hand, we will move full steam ahead. Apart from the growth of our own branded business, we will also initiate the all-round development of our three licensed brands – NBA, FTV and SpongeBob, which we expect will contribute even greater returns for the Group in the coming year. In terms of market expansion, under the context of favorable national policies, the Group will proactively enlarge our sales territory. Under cooperation with our distributors, we will further optimize our sales networks in the second- and third-tier cities in China. In addition, we will actively and prudently explore overseas business by seeking more suitable locations and opportunities for our business development. 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.

ZHENG Liuhe
Chairman
Hong Kong
27 March 2013

Management Discussion and Analysis

Baofeng Modern International Holdings Company Limited (the "Company"), together with its subsidiaries (collectively, the "Group" or "Baofeng Modern"), is a leading brand owner and manufacturer of slippers, sandals and casual footwear in the PRC with two own casual footwear brands – "Boree" and "Baofeng", and a footwear manufacturer for international renowned brands. Since 2012, the Group has initiated the brand licensee business by introducing three licensed brands, namely NBA, FTV and SpongeBob, laying a foundation for the Group to becoming a multi-brand operator.



The Group continued to maintain a satisfactory growth in its revenue, gross profit and profit from its core operations for the year ended 31 December 2012 (the "Year"). Revenue increased by 20.9% from last year to RMB1,351.5 million (2011: RMB1,117.7 million). Gross profit margin rose by 1.1 percentage points to 34.5% (2011: 33.4%). Profit generated from the core operations recorded an increase of 19.6% from last year to RMB193.6 million (2011: RMB161.9 million). Besides, our own branded products continued to generate higher revenue and remained the major driving force in growth of the Group. The revenue from our two own brands was RMB745.5 million, increased by 30.9% and accounted for 55.2% of the Group's total revenue, a further increase from 51.0% of last year. The brand licensee business initiated during the Year contributed RMB21.7 million to the Group's revenue. During the Year, 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, resulted in a loss arising from fair value changes in an amount of RMB39.7 million. As a result, the Group recorded a net profit of RMB153.9 million during the Year.

Business Review

Own Branded Business

The Boree brand, targeting the medium- to high-end market of slippers, sandals and casual footwear, continued to be the key driving force in the rapid growth of the Group. Revenue for the Year amounted to RMB526.9 million (2011: RMB402.3 million), representing a 30.9% increase from the previous year. The increase in revenue was primarily attributable to the continuous expansion of sales network, and the introduction of more diversified and high-end designs of footwear products, as well as the Group's strenuous efforts in marketing, which has enhanced the brand awareness and attractiveness of our own branded products. The footwear with Swarovski Elements crystals launched by the Group received warm response from our distributors and recorded satisfactory sales performance. The Group will continue to launch more luxurious footwear to upgrade our products.

With a focus on the mass market, the Baofeng brand also achieved satisfactory growth during the Year. Revenue generated from the Baofeng brand amounted to RMB218.6 million, representing an increase of 30.8% (2011: RMB167.2 million).

Brand Licensee Business

The brand licensee business initiated during the Year has also contributed to the revenue of the Group. At the fall/winter sales fair held in May and the spring/summer sales fair held in November 2012, the three newly-introduced licensed brands, namely NBA, FTV and SpongeBob, attracted new distributors, whose businesses engage in the male, sportswear, children, and high-end female footwear, to work with the Group, thus further expanding our retail sales network. Apart from that, we also deepened our partnership with NBA China by opening an NBA concept store in Beijing in October. The concept store, known as NBA Home, is currently the only official NBA fans store in China which provides NBA licensed products to some 300 million NBA fans in China. NBA Home is now being operated by a Beijing distributor of Baofeng Modern. If NBA Home receives warm response from the market, the Group may open more concept stores in other cities in China, and will consider taking over the operation of such fans stores. NBA Home focuses on selling licensed products such as NBA slippers and sandals, casual footwear, and other NBA periphery products including backpacks, bottles and towels, etc.

Besides, our NBA slippers and sandals are now available in various sales points in the Southeast Asian region. Attributable to the popularity of the brand in such markets, the sales performance has been satisfactory. Apart from that, following the acquisition of licenses for the FTV and SpongeBob brands at the beginning of the Year, the Group has already launched new spring/summer and fall/winter series at the sales fair in November 2012. Targeting at high-end female footwear and children footwear markets respectively, the FTV and SpongeBob brands helped boost the diversity of our product range. The business scope of the Group has also widened from merely female footwear to a range of male, female and children footwear, witnessing a robust expansion of our product lines as well as a further penetration into different consumer clusters.

Overseas Business

As regards the exploration of overseas markets, Southeast Asian countries represent a huge and potential market for the Group, as slippers and sandals are essential footwear for people in those countries where the climate is hot and humid all year round. By the end of 2012, the Group has successfully established our market presence in Indonesia, the Philippines, Singapore and Malaysia, the four major economies in Southeast Asia. While sales in the four countries were satisfactory, the performance in the Philippines and Singapore was more remarkable.

The Group's first Boree store in Southeast Asia was officially opened in June 2012 in Manila, Philippines. The Group has also established other retail sales points in trendy shopping malls with robust traffic flow during the Year. Furthermore, our overseas business has expanded into the Indonesian and Filipino markets, with some sales point established respectively. Since the sales performance of the Year was satisfactory, the Group is discussing with local distributors on the expansion of the sales network. We expect the overseas business sector will contribute considerable revenue in the coming future.

Distribution Network

During the Year, the number of sales points of the Group in the PRC continued to increase, and a total of 1,068 sales points have been set up in department stores, shopping centers, specialty stores, supermarkets and megastores, etc. As a licensee of the NBA brand, the Group was able to set foot in major sportswear chain stores in China, including Sport 100, Baowei, Baoyuan, Baomin and other sportswear retailers. Apart from that, the Group encouraged distributors to open large multi-brand flagship stores, in order to pave way for establishing our own ones. For instance, our distributor in Fujian Province opened the first "BF&F" store in Quanzhou, where the head office of the Group is located. The store offers our own branded products and licensed branded products, providing customers with a one-stop shopping experience. Furthermore, following the Tsim Sha Tsui store, the Group has opened another Boree store in Causeway Bay in September 2012. Given that Causeway Bay is a prime shopping destination for local people and tourists, the store will further promote reputation and brand recognition of the Group. With growing brand awareness, wider network coverage and diversified product range, our distributors are able to set up sales points with greater flexibility in more locations. Looking forward, the Group will continue to expand our business coverage proactively.

Original Equipment Manufacturer ("OEM") Business

The Group strategically maintained a single-digit growth for OEM business in order to allocate more resources to our own branded business and brand licensee business which generate a higher gross profit. During the Year, the revenue generated from OEM business amounted to RMB584.4 million (2011: RMB548.2 million), representing a 6.6% increase from the previous year. In the future, we will continue to optimize the OEM business by putting priority on orders with higher gross profit, so as to enlarge the overall profit margin of the Group.

Marketing Campaigns

During the Year, Baofeng Modern continued to launch a variety of marketing campaigns to penetrate into various customer groups and enhance the market recognition of our own brands in the field of slippers, sandals and casual footwear. In addition to normal marketing campaigns including TV, print, network and outdoor advertisements, the Group became the exclusive title sponsor of Mayday's Concert in Quanzhou and the official sponsor of the final contest of the 17th "21st Century Cup" National English Speaking Competition. Furthermore, the second season of the "Selection of Baoren Rui Lady" jointly organized by the Group and Rayli, a famous fashion magazine in Beijing, was concluded successfully during the Year. The campaigns not only enhanced the brand recognition of the Group among consumers, especially the younger generation, but also helped to effectively reinforce the trendy image and position of the Group in the market.

Introducing Strategic Investor

During the Year, the Company entered into an agreement with Asia Equity Value Ltd (the "Subscriber"), pursuant to which the Subscriber subscribed for convertible notes in an aggregate principal amount of HK$176.0 million with the final redemption date falling on 21 June 2015. At the Subscriber's option, the notes are 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 (later adjusted to HK$1.27 per share upon an interim dividend for 2012 was distributed by the Company). Pursuant to the agreement, the Company also issued to the Subscriber warrants which carry the rights to subscribe for 62,026,431 shares at the subscription price of HK$1.53 per share (later adjusted to 63,691,570 shares at the subscription price of HK$1.49 per share upon an interim dividend for 2012 was distributed by the Company) 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.

As disclosed in the interim results announcement during the Year, the proceeds from the above activities, together with our internal fund, will be utilised to support the Group's medium- to long-term development plan, which are set to kick off in the year 2013. (Please refer to the section headed "Future Prospects" for details of the future plans.)

Financial Review

Revenue by Product Category

	2012 RMB'000	2011 RMB'000	% Increase
Revenue (Total)	**1,351,544**	1,117,674	20.9%
Revenue (Boree Products)	**526,858**	402,339	30.9%
Revenue (Baofeng Products)	**218,596**	167,168	30.8%
Revenue (Brand Licensee Business)	**21,658**	–	N/A
Revenue (OEM Business)	**584,432**	548,167	6.6%

For the year under review, the revenue of the Group increased by 20.9% to RMB1,351.5 million. Revenue from Boree brand products increased by 30.9% to RMB526.9 million as compared with that of last year while revenue from Baofeng brand products increased by 30.8% to RMB218.6 million. Apart from the continuous expansion of the sales network, the growth was also attributable to the introduction of more diversified and high-end designs for footwear and the constant efforts in promotion. Such initiatives have continuously enhanced the market recognition and attractiveness of our own brands, leading to a growth in sales. The growth in the OEM business remained stable as scheduled and the revenue from the OEM business increased by 6.6% as compared with that of last year. During the year, the newly-introduced brand licensee business contributed RMB21.7 million to the revenue of the Group.

Revenue of own branded business grew by

+31%

Selling and Distribution Costs

During the Year, selling and distribution costs increased by 42.6% to RMB116.4 million as compared with that of last year (2011: RMB81.6 million), which accounted for 8.6% (2011: 7.3%) of the Group's revenue. The increase was primarily attributable to the expenses incurred by our aggressive advertising and marketing campaigns, as well as the royalty fees for the newly-introduced brand licensee business.

General and Administrative Expenses

During the Year, general and administrative expenses recorded an increase of 24.1% to RMB72.7 million (2011: RMB58.6 million) as compared with that of last year, which accounted for 5.4% (2011: 5.2%) of the Group's revenue. The increase was mainly due to the increase in the number of management personnel, share option expense as well as the professional fees arising from the issuance of convertible notes and warrants during the Year.

Liquidity and Financial Resources

During the year under review, net cash inflow from operating activities of the Group amounted to RMB227.2 million (2011: RMB135.3 million). As at 31 December 2012, cash and bank balances were RMB1,035.6 million, representing a net increase of 49.1% as compared with RMB694.8 million as at 31 December 2011. The interest-bearing bank borrowings of the Group as at 31 December 2012 was in a sum of RMB40.7 million (31 December 2011: RMB383.9 million). All bank loans were repayable within one year.

Pledge of Assets

As at 31 December 2012, the Group secured its bills payables by the pledge of its time deposits amounting to RMB70,000. The Group also secured its bank borrowings by the pledge of the Group's trade receivables amounting to RMB6.4 million. At 31 December 2011, the secured bank loans of the Group were pledged by the Group's bank deposits of RMB382.0 million. During the Year, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

Contingent Liabilities

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

Profit Attributable to Owners of the Company

The total consolidated profit for the Year attributable to owners of the Company amounted to RMB153.9 million, representing a decrease of 4.2% as compared with that of last year (2011: RMB160.7 million). Comparing the results of the Group for the Year with that of 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 and warrants issued during the Year.

The details are set out as follows:

	2012 RMB'000	2011 RMB'000
Profit for the year attributable to owners of the Company	**153,932**	160,699
Fair value loss on financial liabilities at fair value through profit or loss	**39,658**	–
Finance cost for exchangeable note	**–**	1,210
Profit from core operations	**193,590**	161,909
Growth	**19.6%**	

Taking into account of the above significant items, the profit from the core operations of the Group during the Year as set out above (the "Profit from Core Operations") was RMB193.6 million, representing an increase of 19.6% as compared with that of 2011.

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

Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group was 24.6% (as at 31 December 2011: 34.3%). Gearing ratio was calculated as total debts divided by the sum of total equity and total debts. Total debts refer to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As at 31 December 2012, the Group has a total of 2,704 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. The net proceeds received by the Company from the share offering were HK$453,570,000 (approximately RMB387,666,000) (after deducting underwriting commission and related expenses).

The utilisation of the net proceeds as at 31 December 2012 is set out as follows:

Nature	**Amount raised** RMB'000	Amount utilised RMB'000
To increase production capacity	**135,683**	69,986
Marketing and advertising expenses	**96,917**	96,917
To acquire other branded product business	**58,150**	–
To strengthen design capability	**19,383**	5,971
To establish flagship shops and showrooms	**19,383**	2,040
To strengthen the distribution resource planning system	**19,383**	2,645
General working capital	**38,767**	38,767
Total:	**387,666**	216,326

Future Prospects

We are endeavoring to reach the goals stated in our detailed medium- to long-term expansion plan as contained in the interim report for the six months ended 30 June 2012. The Group will continue to expand our brand business both vertically and horizontally. Vertical development includes constant enhancement of the value of our own brands by continuous effective marketing efforts, thus further securing our leading position in the industry of trendy slippers, sandals and casual footwear. Besides, the Group will also increase our investment in product research and development, upgrade our own brands and adjust product pricing upward correspondingly through improvement in product quality and product range diversity, so as to expand our profitability. Furthermore, the Group will develop its brand business on a horizontal front by seeking for new brand cooperation, whether through ways of licensing or acquisition, so as to further enrich our brand resources. By incorporating more premium brands into our brand portfolio, it can also upgrade the image of the Group and its own brands.

As to our overseas business, apart from the existing distributors, we are further exploring opportunities for cooperation with well-established local distributors with extensive experience in the Southeast Asian market. We are also planning to expand our presence in overseas markets by establishing footholds in more countries in Southeast Asia.

In addition, as to production capacity, the Group is considering to establish a new plant in an inland province to cope with the increasing number of orders received due to business expansion both at home and abroad and to meet the development needs over the next decade. The new plant will be located in a nearby province where labour force is relatively more abundant and with lower labour cost. The decision on site selection must enable us to reduce production costs and enhance the overall profitability.

The construction of the new plant will be in three phases over six years with the first phase to be completed in three years. Apart from the expansion of production facilities, the Group will also build a new multi-functional headquarters near our plant in Quanzhou to cater for the needs of the continuous business expansion. The Group may commence the construction of the building in 2013. The new headquarters building with a logistic base will replace the existing head office building which is located next to the current production plant and will function as the hub of services and control connecting the nationwide markets.

As to long-term vision, following the successful transformation to a multi-brand operator, the next goal of the Group is undoubtedly to gradually shape itself into a self-operated retailer, and to extend downward the farthest end of the industry chain, thus further broadening the profitability of the Group.

In view of the growing pace of urbanization in the PRC and the increasing income of the people, the city clusters will act as the leading force to drive the economic growth. Against such backdrop, the domestic market-oriented sectors will doubtlessly benefit from the trend. It is expected that the growth momentum of the economy of the PRC will continue. The Group is in its growth phase which still holds plenty of room and potential for development. Leveraging on favorable policies, the Group will capture every good opportunity to maximize returns to the shareholders of the Company through a wide range of proactive strategies both at home and abroad.

Corporate Governance Report

The board (the "Board") of directors (the "Directors") 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.

On 1 April 2012, the Code on Corporate Governance Practices (the "Old CG Code") (formerly set out in Appendix 14 to the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) was amended and renamed as Corporate Governance Code and Corporate Governance Report (the "New CG Code"). The Board is committed to complying with the code provisions as stated in the New CG Code to the extent that the Directors consider it is applicable and practical to the Company.

The Company complied with all the code provisions and a majority of the recommended best practices under the Old CG Code from 1 January 2012 to 31 March 2012 and the New CG Code from 1 April 2012 to 31 December 2012.

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

Independent Non-Executive Directors:

Professor BAI Changhong
Mr. LEE Keung
Ms. AN Na

Non-Executive Directors:

Mr. SZE Ching Bor
Mr. CHEUNG Miu

The biographical details of the Directors and other senior management are disclosed in the section headed "Directors and Senior Management" on pages 32 to 35. 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 year. 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.

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

Mr. Zheng Jingdong and Mr. Sze Ching Bor are relatives. To the best knowledge of the Company, save as disclosed above, there is no financial, business, family or other material/relevant relationship among the members of the Board. All of them are free to exercise their independent judgement.

The Board is responsible for establishing the overall strategic development and direction, setting business objectives and development plans, monitoring the performance of the business and senior management and making major investments and funding decisions of the Group.

The daily business operations and administrative functions of the Group are delegated to the management with department heads responsible for different aspects of the business and functions of the Group.

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.

Details of the attendance of the Board meetings and the annual general meeting ("AGM") held in the year under review are summarized as follows:

	Number of Board meetings attended/held in 2012	Number of AGM attended/held in 2012
Executive Directors		
Mr. ZHENG Liuhe	7/7	0/1
Mr. ZHANG Aiguo	6/7	0/1
Mr. CHEN Qingwei	7/7	1/1
Mr. ZHENG Jingdong	5/7	1/1
Non-executive Directors		
Mr. SZE Ching Bor	4/7	0/1
Mr. CHEUNG Miu	7/7	1/1
Independent Non-executive Directors		
Professor BAI Changhong	5/7	0/1
Mr. LEE Keung	6/7	0/1
Ms. AN Na	6/7	0/1

Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties including the duties and responsibilities as set out in D.3 in Appendix 14 to the Listing Rules which include the development and reviewing of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, reviewing the compliance with the New CG Code, and ensuring proper disclosure in the corporate governance report of the Company.

Continuous Professional Development of Directors

Each newly appointed Director receives induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

From time to time, the Company provides regular updates on changes and developments relating to the Group's business and the legislative and regulatory environments in which the Group conducts its business to the Directors to keep them abreast of the latest changes and development and to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company.

There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary. During the year under review, the Company's legal advisor has organized in-house briefing on the latest development of applicable laws, rules and regulations for the Directors.

During the year under review, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills by attending in-house briefing and reading material relevant to the director's duties and responsibilities.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

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

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

The Board has three independent non-executive Directors, Professor 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.

Terms of Appointment of Non-Executive Directors

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

All independent non-executive Directors and non-executive Directors are subject to re-election on retirement by rotation in accordance with the Articles.

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 AGM 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 AGM of the Company and shall then be eligible for re-election.

Directors' and Officers' Liabilities Insurance

Appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

Board Committees

The Company currently have three committees, namely, the audit committee, remuneration committee and nomination committee (collectively the "Board Committees"), for overseeing particular aspects of the Company's affairs. Terms of reference of all Board Committees are available on the Stock Exchange's website and the Company's website at www.baofengmodern.com. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

An audit committee was established by our Board on 8 January 2011 with written terms of reference in compliance with the Old CG Code. These terms of reference were revised on 29 March 2012 to comply with the New 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 the year ended 31 December 2012 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 follows:

Mr. LEE Keung	2/2
Professor BAI Changhong	0/2
Ms. AN Na	2/2

Remuneration Committee

The Board established the remuneration committee on 8 January 2011 with written terms of reference in compliance with the Old CG Code. These terms of reference were revised on 29 March 2012 to comply with the New 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. It shall also make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The remuneration committee comprises the three independent non-executive Directors, namely Ms. An Na, Professor Bai Changhong and Mr. Lee Keung. Ms. An Na is the chairperson of the remuneration committee. The remuneration committee held one meeting during the year and the details of the attendance are as follows:

Ms. AN Na	1/1
Professor BAI Changhong	0/1
Mr. LEE Keung	1/1

Pursuant to code provision B.1.5 of the New CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band *(RMB)*	Number of individuals
0 – 500,000	3
500,001 – 1,000,000	2

Details of the remuneration of each director of the Company for the year ended 31 December 2012 are set out in note 8 to the financial statements contained in this annual report.

Nomination Committee

On 8 January 2011, the Board established the nomination committee with written terms of reference in compliance with the Old CG Code. These terms of reference were revised on 29 March 2012 to comply with the New 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, Mr. Lee Keung and Ms. An Na. Professor Bai is the chairperson of the nomination committee. The nomination committee held one meeting during the year and the details of the attendance are as follows:

Professor BAI Changhong	0/1
Mr. LEE Keung	1/1
Ms. AN Na	1/1

During the year, the nomination committee has reviewed the size, structure and composition of the Board. The committee also reviewed the revised terms of reference, to assess the independence of independent non-executive Directors and to make recommendations to the Board on the re-election of directors to be proposed for shareholders' approval at the AGM.

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.

Company Secretary

Mr. Au Wai Keung joined our Group on 22 May 2010 and is now the Company Secretary of the Company. The biographical details of Mr. Au are disclosed in the section headed "Directors and Senior Management" on pages 32 to 35. Mr. Au has complied with Rule 3.29 of the Listing Rules in the year under review.

The Company has engaged Mr. Au, an external service provider, as its company secretary and Mr. Au can contact the Chief Financial Officer in relation to the day-to day affairs of the Company.

Compliance Adviser

For the purpose of and in compliance with Rule 3A.19 of the Listing Rules, the Company has 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 the 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 under review, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Ernst & Young, were RMB2,297,000 and RMB650,000 respectively.

Investor Relations and Communication with Shareholders

Information about the Group has been provided to the shareholders through financial reports, announcements and general meetings including AGMs 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.

During the year, there is no significant change in the Company's constitutional documents.

Shareholders' Right

Convening an Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

Pursuant to article 58 of the Articles of the Company, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company by mail at the Company's principal place of business in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The same requirements and procedures also apply to any proposal to be tabled at shareholders' meetings for adoption.

Putting Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at the Company's principal place of business in Hong Kong. The company secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the chief executives.

Directors and Senior Management

Executive Directors

Mr. ZHENG Liuhe (鄭六和先生)

Mr. Zheng, aged 75, 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 55, 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 58, 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 47, 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 65, 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 43, a non-executive Director, has been a Director of the Company 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 47, 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 44, 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 53, 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. WONG Wai Ming (黃偉明先生)

Mr. Wong, aged 40, joined our Group in July 2011 and is the Chief Financial Officer of our Group. He is responsible for the Group's corporate finance affairs and the 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 also a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. ZHENG Guozhang (鄭郭璋先生)

Mr. Zheng Guozhang, aged 40, 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. LIU Yu I (劉郁沂先生)

Mr. Liu, aged 40, joined our Group in May 2011 and is now the executive general manager of licensed brand division. He is primarily responsible for the management and operation of all international licensed brands of the Group. He has over 10 years of experience in enhancing shoes manufacturing productivity and building international brands in domestic market. Prior to joining our Group, he served as a brand director of Oakley China, operated under Taiwan Pouchen Group and a special assistant to general manager of 3rd division of Yue Yuen Industrial (Holdings) Limited (stock code: 551) from November 2002 to December 2010. Mr. Liu obtained a master's degree in Engineering Business Management from University of Warwick, England in 2002.

Mr. ZENG Jianbo (曾劍波先生)

Mr. Zeng, aged 47, 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 41, 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 2012.

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 2012 are set out in note 17 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 106.

An interim dividend of HK2.5 cents per ordinary share was paid on 12 October 2012. The Directors does not recommend the payment of a final dividend for the year ended 31 December 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 27 and 28 to the financial statements, respectively.

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 506,000 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
July	506,000	0.88	0.85	439

Further details of these transactions are set out in note 27 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB677,178,000. The amount of RMB677,178,000 includes the Company's share premium account and contributed surplus of RMB748,231,000 in aggregate at 31 December 2012, 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 RMB10,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 27.0% of the total sales for the year and sales to the largest customer included therein amounted to 7.4%.

Purchases from the Group's five largest suppliers accounted for 22.0% of the total purchases for the year and purchase from the Group's largest supplier included therein amounted to 6.0% 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

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

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

Pursuant to Articles 84 of the Company's Articles, at each AGM, 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 AGM, being eligible, will offer themselves for re-election at the AGM.

As such, Professor Bai Changhong, Mr. Lee Keung and Ms. An Na will retire from office as Directors at the forthcoming AGM 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 32 to 35 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 months' 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 Articles of Association.

Directors' Interests in Contracts

Saved for transactions as disclosed in note 33 to the financial statements, no Director 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 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	51.03%

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	0.88%
Mr. Zheng Jingdong	Beneficial owner	5,500,000	0.54%
Mr. Zhang Aiguo	Beneficial owner	3,000,000	0.29%

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 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 28 to the financial statements.

The following table discloses the outstanding share options under the Share Option Scheme as at 31 December 2012:

		Number of options							
Name or Category of participants	Date of grant (Note 1)	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	Outstanding as at 31 December 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		
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		

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 ended 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 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)	51.03%
Ms. Tsang Shuk Ping (2)	Spousal interest	519,035,767 (L)	51.03%
Best Mark International Limited (1)	Beneficial owner/Other	473,876,157 (L)	46.59%
Asia Equity Value Ltd.	Beneficial owner	228,377,576 (L)	22.46%
		32,000,000 (S)	3.15%
CITIC Capital China Mezzanine Fund Limited ("CITIC Capital")	Beneficial owner	85,325,500 (L)	8.39%
Multifield International Limited (3)	Interest in controlled corporation	85,325,500 (L)	8.39%
CITIC Capital Investment Holdings Limited (4)	Interest in controlled corporation	85,325,500 (L)	8.39%
CITIC Capital Holdings Limited (5)	Interest in controlled corporation	85,325,500 (L)	8.39%
CITIC Limited (5)	Interest in controlled corporation	85,325,500 (L)	8.39%
CITIC Group (6)	Interest in controlled corporation	85,325,500 (L)	8.39%
Warlord Investment Corporation (7)	Interest in controlled corporation	85,325,500 (L)	8.39%
The Royal Bank of Scotland N.V. (8)	Interest in controlled corporation	85,325,500 (L)	8.39%
The Royal Bank of Scotland Group plc. (9)	Interest in controlled corporation	85,325,500 (L)	8.39%
RBS Holdings N.V. (10)	Interest in controlled corporation	85,325,500 (L)	8.39%
RFS Holdings B.V. (11)	Interest in controlled corporation	85,325,500 (L)	8.39%

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 46.59% and 4.44%, 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 call and put option confirmation to get back these 32,000,000 Shares without additional cost.

(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) 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.

(9) 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..

(10) 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.

(11) 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.

(12) The Letter "L" and "S" denotes the person's long and short position respectively in the Shares of our Company.

Save as disclosed above, as at 31 December 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.

Connected Transactions

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

The related party transactions disclosed in note 33 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 28 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 AGM.

ON BEHALF OF THE BOARD

ZHENG Liuhe
Chairman

Hong Kong
27 March 2013

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 47 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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 requirement of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 March 2013

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**1,351,544**	1,117,674
Cost of sales		**(885,501)**	(744,566)
Gross profit		**466,043**	373,108
Other income and gains, net	5	**5,182**	7,603
Selling and distribution expenses		**(116,427)**	(81,625)
General and administrative expenses		**(72,710)**	(58,593)
Other operating expenses		**(119)**	(3,928)
Fair value loss on financial liabilities at fair value through profit or loss	25	**(39,658)**	–
Profit from operations		**242,311**	236,565
Finance costs	6	**(4,815)**	(5,948)
PROFIT BEFORE TAX	7	**237,496**	230,617
Income tax expense	10	**(83,564)**	(69,918)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	11	**153,932**	160,699
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
– Basic (RMB)		**0.15**	0.16
– Diluted (RMB)		**N/A**	N/A

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 **RMB'000**	2011 RMB'000
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**153,932**	160,699

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**110,004**	89,758
Prepaid land lease payments	15	**36,020**	36,846
Deposit		**–**	250
Prepaid rent	16	**4,537**	–
Total non-current assets		**150,561**	126,854
CURRENT ASSETS			
Inventories	18	**74,430**	69,689
Trade receivables	19	**142,582**	122,705
Prepayments, deposits and other receivables	20	**15,793**	13,462
Value added tax recoverable		**9,065**	5,869
Pledged deposits	21	**70**	382,004
Cash and bank balances	21	**1,035,600**	694,816
Total current assets		**1,277,540**	1,288,545
CURRENT LIABILITIES			
Trade and bills payables	22	**87,638**	60,488
Deposits received, other payables and accruals	23	**59,211**	33,610
Interest-bearing bank borrowings	24	**40,732**	383,910
Convertible notes	25	**146,133**	–
Warrants	25	**10,337**	–
Tax payable		**24,376**	21,463
Total current liabilities		**368,427**	499,471
NET CURRENT ASSETS		**909,113**	789,074
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,059,674**	915,928
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**3,071**	–
Net assets		**1,056,603**	915,928
EQUITY			
Equity attributable to owners of the Company			
Issued capital	27	**67,466**	66,126
Reserves	29(a)	**989,137**	849,802
Total equity		**1,056,603**	915,928

ZHENG Liuhe
Director

CHEN Qingwei
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2012

		Attributable to owners of the Company									
			Reserves								
	Notes	Issued capital RMB'000 (note 27)	Share premium RMB'000	Contributed surplus RMB'000 (note 29(a))	Statutory surplus fund RMB'000 (note 29(a))	Exchange fluctuation reserve RMB'000 (note 29(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 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	27	49,800	(49,800)	–	–	–	–	–	–	(49,800)	–
Issue of shares	27	16,603	410,747	–	–	–	–	–	–	410,747	427,350
Share issue expenses		–	(18,477)	–	–	–	–	–	–	(18,477)	(18,477)
Repurchase and cancellation of shares	27, 29	(284)	(3,456)	–	–	–	284	–	(284)	(3,456)	(3,740)
Equity-settled share option arrangements	28	–	–	–	–	–	–	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	29	–	–	57,768	–	–	–	–	–	57,768	57,768
Transfer to statutory surplus fund		–	–	–	18,167	–	–	–	(18,167)	–	–
At 31 December 2011 and 1 January 2012		**66,126**	**360,781**	**129,193**	**64,825**	**155**	**284**	**2,103**	**292,461**	**849,802**	**915,928**
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	–	153,932	153,932	153,932
Issue of shares	27	1,372	13,103	–	–	–	–	–	–	13,103	14,475
Repurchase and cancellation of shares	27, 29	(32)	(325)	–	–	–	32	–	(32)	(325)	(357)
Equity-settled share option arrangements	28	–	–	–	–	–	–	5,156	–	5,156	5,156
Final 2011 dividend	12	–	–	–	–	–	–	–	(24,360)	(24,360)	(24,360)
Interim 2012 dividend	12	–	(20,354)	–	–	–	–	–	–	(20,354)	(20,354)
Increase in contributed surplus under Stock Borrowing Arrangement	25	–	–	12,183	–	–	–	–	–	12,183	12,183
Transfer to statutory surplus fund		–	–	–	22,751	–	–	–	(22,751)	–	–
At 31 December 2012		**67,466**	**353,205**	**141,376**	**87,576**	**155**	**316**	**7,259**	**399,250**	**989,137**	**1,056,603**

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**237,496**	230,617
Adjustments for:			
Interest income	5	**(3,834)**	(3,303)
Interest expenses	6	**4,815**	5,948
Depreciation	7	**9,812**	5,719
Amortisation of prepaid land lease payments	7	**826**	1,130
Loss on disposal of items of property, plant and equipment	7	**101**	90
Equity-settled share option expense	7	**5,156**	2,103
Fair value loss on financial liabilities at fair value through profit or loss	25	**39,658**	–
		294,030	242,304
Decrease/(increase) in a deposit		**250**	(250)
Decrease/(increase) in prepaid rent		**(4,537)**	1,239
Increase in inventories		**(4,741)**	(18,747)
Increase in trade receivables		**(19,877)**	(41,866)
Increase in prepayments, deposits and other receivables		**(2,331)**	(718)
Increase in value added tax recoverable		**(3,196)**	(337)
Increase in trade and bills payables		**27,150**	17,564
Increase/(decrease) in deposits received, other payables and accruals		**14,149**	(2,017)
Cash generated from operations		**300,897**	197,172
Interest received		**3,834**	3,303
PRC taxes paid		**(77,580)**	(65,166)
Net cash flows from operating activities		**227,151**	135,309
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(19,127)**	(46,624)
Additions to prepaid land lease payments	15	**–**	(5,683)
Proceeds from disposal of items of property, plant and equipment		**420**	393
Decrease/(increase) in pledged deposits		**381,934**	(382,004)
Net cash flows from/(used) in investing activities		**363,227**	(433,918)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares	27	**–**	427,350
Share issue expenses	29	**–**	(18,477)
Net proceeds from issue of convertible notes	25	**143,470**	–
New bank loans		**107,767**	461,410
Repayment of bank loans		**(450,945)**	(117,125)
Repurchase of shares	27	**(357)**	(3,740)
Dividend paid		**(44,714)**	(77,209)
Interest paid		**(4,815)**	(6,665)
Net cash flows from/(used in) financing activities		**(249,594)**	665,544
NET INCREASE IN CASH AND CASH EQUIVALENTS		**340,784**	366,935
Cash and cash equivalents at beginning of year		**694,816**	327,881
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,035,600**	694,816
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,035,600**	694,816

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**902,075**	719,419
CURRENT ASSETS			
Prepayments	20	**4,236**	4,544
Dividend receivable from a subsidiary	17	**7,276**	51,988
Pledged deposits	21	**–**	382,004
Cash and bank balances	21	**279**	840
Total current assets		**11,791**	439,376
CURRENT LIABILITIES			
Other payables and accruals	23	**2,015**	135
Due to subsidiaries	17	**3,162**	3,311
Interest-bearing bank borrowings	24	**–**	318,910
Convertible notes	25	**146,133**	–
Warrants	25	**10,337**	–
Total current liabilities		**161,647**	322,356
NET CURRENT ASSETS/(LIABILITIES)		**(149,856)**	117,020
Net assets		**752,219**	836,439
EQUITY			
Issued capital	27	**67,466**	66,126
Reserves	29(b)	**684,753**	770,313
Total equity		**752,219**	836,439

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

The principal activity of the Company is investment holding. 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 convertible notes and warrants, which are 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 2012. 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 it 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 revised IFRSs for the first time for the current year's 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*
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 revised IFRSs has had no significant financial effect on these financial statements.

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 – Government Loans* [2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
IFRS 9	*Financial Instruments* [4]
IFRS 9 and IFRS 7 Amendments	Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures – Mandatory Effective Date of IFRS 9 and Transition Disclosures* [4]
IFRS 10	*Consolidated Financial Statements* [2]
IFRS 11	*Joint Arrangements* [2]
IFRS 12	*Disclosure of Interests in Other Entities* [2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance* [2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities* [3]
IFRS 13	*Fair Value Measurement* [2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
IAS 19 (Amendments)	Amendments to IAS 19 *Employee Benefits* [2]
IAS 27 (Revised)	*Separate Financial Statements* [2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements Projects	Annual Improvements to IFRSs 2009 – 2011 Cycle [2]

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 investments 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 an 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

An item of property, plant and equipment including 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 the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

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

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 other income and gains 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the 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 write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, convertible notes, warrants and interest-bearing bank borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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.

Convertible notes

Convertible notes entitle the note holder to convert the note into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component.

On initial recognition, the convertible notes with the derivative component as a whole are designated as financial liabilities at fair value through profit or loss. The entire convertible notes are initially recognised at fair value on the date of issue and are subsequently measured at fair value until extinguished on conversion or redemption. Changes in the fair value of the entire convertible notes are recognised in the income statement as they arise. Interest on convertible notes designated as financial liabilities at fair value through profit or loss is included in the fair value gain or loss for that period. Upon conversion of the convertible notes, the fair value of the convertible notes converted is reclassified to equity.

Transaction costs that are directly attributable to the issue of the convertible notes designated as financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Warrants

Warrants which meet the definition of a derivative are initially recognised at fair value at initial recognition and are subsequently measured at fair value. Changes in the fair value of warrants are recognised in the income statement as they arise.

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 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.

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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

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

(d) dividend income, when the shareholders' 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Share-based payments

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 payments, 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 28 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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 payments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Other benefits

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value 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 the 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).

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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment 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.

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 jurisdiction 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

Valuation of convertible notes and warrants

As described in note 25 to the financial statements, the convertible notes and warrants are designated as financial liabilities 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 convertible notes and warrants. The fair value of the convertible notes and warrants are determined using the binomial model. The significant inputs into the model included risk-free interest rate, conversion price/exercise price, stock price, discount rate, expected volatility, expected life and expected dividend yields. 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 convertible notes and warrants.

Share-based payments

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 payments are disclosed in note 28.

4. 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 ("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, net, 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. 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 and bills payables, other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, dividend payable and tax payable as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licensee Business RMB'000	OEM RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	526,858	218,596	21,658	584,432	1,351,544
Segment results	143,308	72,719	2,662	130,927	349,616
Reconciliation:					
Interest income					3,834
Other unallocated income and gains, net					1,348
Corporate and other unallocated expenses					(72,829)
Fair value loss on financial liabilities at fair value through profit or loss					(39,658)
Finance costs					(4,815)
Profit before tax					237,496
Segment assets	78,396	31,684	14,585	70,474	195,139
Reconciliation:					
Corporate and other unallocated assets					1,232,962
Total assets					1,428,101
Segment liabilities	1,150	1,150	–	–	2,300
Reconciliation:					
Corporate and other unallocated liabilities					369,198
Total liabilities					371,498

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licensee Business RMB'000	OEM RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	402,339	167,168	–	548,167	1,117,674
Segment results	104,046	55,690	–	131,747	291,483
Reconciliation:					
Interest income					3,303
Other unallocated income and gains					4,300
Corporate and other unallocated expenses					(62,521)
Finance costs					(5,948)
Profit before tax					230,617
Segment assets	74,795	22,706	–	74,766	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

Geographical information

(a) *Revenue from external customers*

	2012 RMB'000	2011 RMB'000
PRC (principal place of operations)	**1,169,655**	925,037
United States of America	**161,039**	169,036
South America	**7,096**	6,562
Europe	**3,982**	4,232
South East Asia	**4,509**	1,812
Other countries	**5,263**	10,995
	1,351,544	1,117,674

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
PRC (principal place of operations)	**150,561**	126,854

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

Information about major customers

For the years ended 31 December 2012 and 2011, 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:

	2012 RMB'000	2011 RMB'000
Revenue		
Manufacture and sale of goods	**1,351,544**	1,117,674
Other income and gains, net		
Interest income	**3,834**	3,303
Rental income	**207**	191
Subsidy income *	**1,268**	20
Foreign exchange differences, net	**(137)**	3,880
Others	**10**	209
	5,182	7,603

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

6. FINANCE COSTS

	Group 2012 RMB'000	2011 RMB'000
Interest on bank loans repayable within five years	**4,815**	4,738
Interest expenses on exchangeable note	**–**	1,210
	4,815	5,948

7. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold *	**885,501**	744,566
Depreciation *	**9,812**	5,719
Amortisation of prepaid land lease payments	**826**	1,130
Minimum lease payments under operating leases in respect of land and buildings *	**7,124**	5,471
Employee benefit expenses* (including directors' remuneration – note 8):		
Wages and salaries	**112,939**	102,676
Equity-settled share option expense	**5,156**	2,103
Staff welfare	**8,596**	10,849
Pension scheme contributions **	**10,510**	9,658
	137,201	125,286
Auditors' remuneration	**2,297**	1,977
Loss on disposal of items of property, plant and equipment	**101**	90
Foreign exchange differences, net	**137**	(3,880)
Bank interest income	**(3,834)**	(3,303)
Research and development costs ***	**2,674**	2,055

* The cost of inventories sold for the year ended 31 December 2012 includes approximately RMB101,064,000 (2011: RMB93,145,000) 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.

** At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: 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	
	2012	2011
	RMB'000	RMB'000
Fees	**820**	810
Other emoluments:		
Salaries, allowances and benefits in kind	**2,288**	2,325
Equity-settled share option expense	**2,952**	1,260
Pension scheme contributions	**25**	4
	6,085	4,399

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:

	2012	2011
	RMB'000	RMB'000
Professor Bai Chang Hong	**164**	168
Mr. Lee Keung, Thomson	**164**	168
Ms. An Na	**164**	168
	492	504

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Non-executive directors

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

	2012	2011
	RMB'000	RMB'000
Mr. Sze Ching Bor	**164**	153
Mr. Cheung Miu	**164**	153
	328	306

There were no other emoluments payable to the non-executive directors during the year (2011: 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 2012					
Mr. Zheng Liuhe	**–**	**598**	**–**	**–**	**598**
Mr. Chen Qingwei*	**–**	**596**	**1,518**	**12**	**2,126**
Mr. Zhang Aiguo	**–**	**596**	**506**	**2**	**1,104**
Mr. Zheng Jingdong	**–**	**498**	**928**	**11**	**1,437**
	–	**2,288**	**2,952**	**25**	**5,265**
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

* Mr. Chen Qingwei is also the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2011: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group 2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**792**	725
Equity-settled share option expense	**129**	86
	921	811

During the year ended 31 December 2012, the remuneration of the non-director and non-chief executive, highest paid employee fell within the band of RMB500,001 to RMB1,000,000 (2011: 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 (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.

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Current – Mainland China		
Charge for the year	**78,228**	71,711
Under/(overprovision) in prior years	**2,265**	(1,793)
Deferred – Mainland China (note 26)	**3,071**	–
Total tax charge for the year	**83,564**	69,918

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	
	2012	2011
	RMB'000	RMB'000
Profit before tax	**237,496**	230,617
Tax at the applicable tax rates	**65,368**	59,058
Adjustment in respect of current tax of previous periods	**2,265**	(1,793)
Income not subject to tax	**(28)**	–
Expenses not deductible for tax	**14,089**	7,854
Effect of withholding tax of 5% (2011: 10%) on the distributable profits of the Group's PRC subsidiary	**3,071**	8,200
Others	**(1,201)**	(3,401)
Tax charge at the Group's effective rate	**83,564**	69,918

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 5% (2011: 10%). In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2012, there were no significant unrecognised deferred tax liabilities (2011: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiary expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

10. INCOME TAX (continued)

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 2012 includes a loss of RMB59,568,000 (2011: RMB4,408,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividend paid during the year:		
Final in respect of the financial year ended 31 December 2011 – HK3.0 cents (year ended 31 December 2010: Nil) per ordinary share	**24,360**	–
Interim – HK2.5 cents (2011: HK2.0 cents) per ordinary share	**20,354**	16,309
	44,714	16,309
Proposed final dividend:		
Final – Nil (2011: HK3.0 cents) per ordinary share	**–**	24,217

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 997,006,308 (2011: 979,760,877) 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 2012 includes the 995,720,000 ordinary shares in issue, 21,806,833 ordinary shares issued on 7 December 2012 in connection with the first repayment of the convertible notes, and 506,000 repurchased and cancelled shares.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 included 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.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 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 year were higher than the average market price of the Company's ordinary shares for the year and accordingly, there is no dilutive effect on the basic earnings per share.

The calculation of 2011 diluted earnings per share amount was based on the consolidated profit for the year 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 amount presented for the year ended 31 December 2011 in respect of a dilution as the exchangeable note outstanding during the year ended 31 December 2011 had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of 2011 diluted earnings per share was based on:

	2011 RMB'000
Earnings	
Consolidated profit attributable to owners of the Company, used in the basic earnings per share calculation	160,699
Interest on exchangeable note	1,210
Consolidated profit attributable to owners of the Company before interest on exchangeable note	161,909

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 2012							
Cost:							
At 1 January 2012	**45,243**	**21,392**	**6,317**	**5,430**	**14,945**	**28,372**	**121,699**
Additions	**–**	**3,468**	**954**	**1,093**	**24,223**	**841**	**30,579**
Disposals	**–**	**(720)**	**–**	**(210)**	**–**	**–**	**(930)**
Transfers	**27,300**	**72**	**–**	**–**	**1,000**	**(28,372)**	**–**
At 31 December 2012	**72,543**	**24,212**	**7,271**	**6,313**	**40,168**	**841**	**151,348**
Accumulated depreciation:							
At 1 January 2012	**13,483**	**11,591**	**4,010**	**1,793**	**1,064**	**–**	**31,941**
Provided during the year	**3,097**	**1,788**	**1,082**	**491**	**3,354**	**–**	**9,812**
Disposals	**–**	**(409)**	**–**	**–**	**–**	**–**	**(409)**
At 31 December 2012	**16,580**	**12,970**	**5,092**	**2,284**	**4,418**	**–**	**41,344**
Net carrying amount:							
At 31 December 2012	**55,963**	**11,242**	**2,179**	**4,029**	**35,750**	**841**	**110,004**
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

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

At 31 December 2012, included in "Buildings" is a property for self-use with a carrying amount of approximately RMB27,306,000 (2011: RMB7,000) for which the Group has not yet obtained the building ownership certificate. The Group is in the process of applying the building ownership certificate.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**37,662**	33,109
Additions	**–**	5,683
Amortisation during the year	**(826)**	(1,130)
Carrying amount at 31 December	**36,836**	37,662
Current portion included in prepayments, deposits and other receivables	**(816)**	(816)
Non-current portion	**36,020**	36,846

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

16. PREPAID RENT

Balance represents prepaid rent for leasing a production plant and office premises in Mainland China under an operating lease arrangement for a term of three years.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**303,658**	303,650
Due from a subsidiary	**598,417**	415,769
	902,075	719,419

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 Direct	Indirect	Principal activities
BAOF International Limited ("BAOF HK")	Hong Kong	HK$10,000	100	–	Provision of management services
Quanzhou Baofeng Shoes Co., Ltd.* ("Quanzhou Baofeng")	PRC	RMB524,229,000	–	100	Manufacture and sale of slippers
Baofeng Modern (HK) Limited** ("Modern HK")	Hong Kong	HK$10,000	100	–	Dormant

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

** Modern HK is a wholly-owned subsidiary incorporated in Hong Kong on 9 September 2012.

During the year ended 31 December 2012, the registered capital of Quanzhou Baofeng has been increased from RMB472,400,000 to RMB672,400,000. As at 31 December 2012, the paid up capital of Quanzhou Baofeng was RMB524,229,000 (2011: RMB407,229,000).

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 amounts due to subsidiaries are unsecured, interest-free and are repayable on demand.

A dividend receivable of RMB7,276,000 (2011: RMB51,988,000) 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.

18. INVENTORIES

	Group 2012 RMB'000	2011 RMB'000
Raw materials	**9,620**	9,120
Work in progress	**12,253**	11,007
Finished goods	**52,557**	49,562
	74,430	69,689

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	
	2012	2011
	RMB'000	RMB'000
Within 3 months	**142,582**	122,225
3 to 6 months	**–**	480
	142,582	122,705

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

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**142,582**	122,225
Less than 3 months past due	**–**	480
	142,582	122,705

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.

As at 31 December 2012, the Group pledged trade receivables of approximately RMB6,387,000 (2011: Nil) to secure the bank borrowings granted to the Group (note 24).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**7,714**	5,250	**4,236**	4,544
Deposits	**3,146**	3,283	–	–
Other receivables	**4,933**	4,929	–	–
	15,793	13,462	**4,236**	4,544

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 2012, the cash and bank balances of the Group denominated in RMB amounted to RMB1,006,948,000 (2011: RMB685,850,000). 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 six months depending on the repayment of the bank loans, and earn interest at the respective time deposit rates ranging from 3.05% to 3.30% per annum (2011: 1.10% to 1.27%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. 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:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 3 months	**87,406**	60,488
Over 3 months	**232**	–
	87,638	60,488

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms (2011: two to three months). The bills payable of RMB232,000 (2011: Nil) were secured by the pledge of the Group's time deposits amounting to RMB70,000 as at 31 December 2012 (2011: Nil).

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received	**2,340**	2,450	–	–
Other payables	**27,143**	16,404	**1,733**	49
Accruals	**29,728**	14,756	**282**	86
	59,211	33,610	**2,015**	135

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

24. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Bank loans – unsecured	**35,000**	65,000	**–**	–
Bank loans – secured	**5,732**	318,910	**–**	318,910
	40,732	383,910	**–**	318,910
Analysed into:				
Bank loans repayable within one year	**40,732**	383,910	**–**	318,910

(a) The bank loans were denominated in RMB and USD and bore fixed interest rates (2011: floating interest rates) ranging from:

Year ended 31 December 2012	1.430% – 7.890% per annum
Year ended 31 December 2011	1.486% – 6.626% per annum

(b) At 31 December 2012, the secured bank loans of the Group were secured by the pledge of the Group's trade receivables amounting to approximately RMB6,387,000 (2011: Nil) (note 19).

(c) 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 year ended 31 December 2012, the respective bank borrowings were fully repaid and the pledged bank deposits were released.

25. 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 (the "Stock Lender"), a substantial shareholder of the Company, entered into a stock borrowing agreement (the "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 (the "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 in 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. The 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 with certain terms and conditions as mentioned in the Subscription Agreement.

25. 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 are converted or redeemed, whichever date is earlier.

In the event where the Company fails or is unable to deliver shares of the Company upon the exercise of any right to convert attached to any Convertible Notes due to any restriction on the allotment or issuance of shares, the Company shall (i) deliver the maximum number of share permitted to be allotted or issued by the Company to the Notes Holder (the "Shortfall Shares") and (ii) pay such Notes Holder an amount in cash to be calculated by: 120% x (number of shares required to be delivered by the Company – the Shortfall Shares) x the volume weighted average price per share as of the date of the relevant convertible notes conversion notice.

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 each Repayment Date and at the end of each reporting period and any gains or losses arising from changes in fair value are recognised in the income statement.

The Conversion Price of the Convertible Notes has been adjusted from HK$1.31 to HK$1.27 in accordance with the terms and conditions of the Convertible Notes with effect from 12 October 2012 as the Company declared and announced the 2012 interim dividend of HK2.5 cents per ordinary share on 31 August 2012.

On 7 December 2012, the Company has redeemed the first outstanding installment of HK$16,000,000 of the Convertible Notes and the accrued interest of HK$6,160,000 (up to the first Repayment Date) by issuing 21,806,833 ordinary shares with a nominal value of US$0.01 each at a price of approximately HK$1.02 per share to the Subscriber for the first repayment due on 21 December 2012 (the "First Repayment"). The fair value of the first outstanding installment redeemed was RMB14,475,000 at the First Repayment Date on 21 December 2012, with reference to the valuations performed by BMI Appraisals Limited ("BMI"), an independent firm of professionally qualified valuers, located at Suites 11-18, 31st Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

Warrants

The Warrants give the holder of the Warrants (the "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 (the "Subscription Price"), 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) (the "Warrants Subscription Date"), and will mature on the fifth anniversary from the Warrants Subscription Date (i.e. 22 December 2017).

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 repurchase all or a portion of its Warrants at a price equal to the Black Scholes Value in respect of the relevant Warrants as mentioned in the Subscription Agreement.

25. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants (continued)

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 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.

Subsequent to year end, the Company has entered into a supplemental instrument with the Subscriber on 7 February 2013 to amend certain major terms and conditions of the Warrants (the "Supplemental Warrant Instrument"). The Supplemental Warrant Instrument has been approved by the Subscriber as the sole holder of the Warrants in accordance with the terms and conditions of the Warrants. In accordance with the Supplemental Warrant Instrument, the Company and the Subscriber agreed that any adjustments to the Subscription Price should take effect if the adjustment is HK$0.01 or more. As a result of the above, the Subscription Price has been adjusted from HK$1.53 to HK$1.49 with effect from 12 October 2012 as a result of the distribution of the 2012 interim dividend of HK2.5 cents per ordinary share by the Company.

Upon full subscription of the Warrants, a total of 63,691,570 new shares will be issued and the net proceeds upon full subscription are approximately HK$94,900,000 (i.e. RMB77,360,000).

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 shares 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 (the "Stock Borrowing Arrangement") is considered as a deemed capital 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 amount of such contribution from the substantial shareholder is not remeasured in subsequent years.

Since 27 July 2012, the shares of the Company are no longer within the definition of "Designated Security" under the Rules of the Hong Kong Stock Exchange. At the request of the Subscriber, on 10 September 2012, the Stock Lender and the Subscriber entered into an amendment agreement (the "Amendment Agreement") to amend the Stock Borrowing Agreement. Pursuant to the Amendment Agreement, the terms in the Stock Borrowing Agreement has been modified to a share transfer agreement (the "Share Transfer Agreement"), pursuant to which 32,000,000 of the Company's ordinary shares were sold by the Stock Lender to the Subscriber at HK$32,320,000 (the "Consideration"). The Stock Lender is no longer entitled to the redelivery of the respective shares or their equivalent under the Share Transfer Agreement.

25. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing (continued)

On 10 September 2012, the Stock Lender and the Subscriber entered into a letter agreement (the "Call and Put Option Confirmation") pursuant to which the Subscriber has granted to the Stock Lender the right to purchase 32,000,000 of the Company's ordinary shares at a strike price of HK$1.01 (the "Call Option") and the Stock Lender has granted the Subscriber the right to require the Stock Lender to purchase 32,000,000 of the Company's ordinary shares at the same strike price (the "Put Option"). The Stock Lender may exercise the Call Option at any time and from time to time during the period between (i) the later of (a) the date on which the principal and interest of the Convertible Notes and all other sums outstanding and payable by the Company under the Amendment Agreement have been redeemed and/or paid in full by the Company; and (b) the date on which all Warrants have been exercised or expired (the "Expiration Date") and (ii) 60 days after the Expiration Date (both dates inclusive), unless any of the events as stipulated under the Call and Put Option Confirmation occur earlier than the Expiration Date, which will then entitle the Stock Lender to exercise the Call Option earlier. The Subscriber may exercise the Put Option at any time and from time to time between the date on which the Amendment Agreement became effective and 60 days after the Expiration Date (both dates inclusive).

Pursuant to the Call and Put Option Confirmation, the Stock Lender shall pay the aggregate strike price payable upon exercise of the Put Option in full to the Subscriber as credit support for its obligations in relation to the Put Option, which has been satisfied by offsetting against the Subscriber's obligation to pay the Consideration of HK$32,320,000 to the Stock Lender.

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

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

	Convertible Notes RMB'000	Warrants RMB'000	Total RMB'000
Fair value at the Issuance Date	122,204	9,083	131,287
The First Repayment on 21 December 2012	(14,475)	–	(14,475)
Fair value loss charged to the income statement during the year	38,404	1,254	39,658
Fair Value at 31 December 2012	146,133	10,337	156,470

25. CONVERTIBLE NOTES AND WARRANTS (continued)

Valuation of the Convertible Notes, the Warrants and the Stock Borrowing Arrangement (continued)

The fair value loss charged to the income statement of financial liabilities designated as at fair value through profit and loss attributable to changes in the credit risk of that liability during the year was RMB622,000 (2011: Nil). This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

As at 31 December 2012, the fair values of the Convertible Notes and the Warrants were calculated using the binomial model and the inputs into the model were as follows:

Convertible Notes

Stock price (HK$)	1.130
Principal amount (HK$'000)	160,000
Coupon rate (%)	7.000
Conversion price (HK$)	1.270
Volatility (%)	18.399 – 41.964
Risk-free rate (% per annum)	0.048 – 0.209
Expected Life (years)	0.220 – 2.470
Expected Dividend Yield (%)	4.867

Warrants

Stock price (HK$)	1.130
Exercise price (HK$)	1.490
Volatility (%)	41.964
Risk-free Rate (% per annum)	0.320
Expected Life (years)	4.975
Expected Dividend Yield (%)	4.867

26. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Group Withholding taxes RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Deferred tax charged to the income statement during the year (note 10)	3,071
At 31 December 2012	3,071

The Group has no significant unprovided deferred tax in respect of the reporting period and as at the end of the reporting period (2011: Nil).

27. SHARE CAPITAL

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

Shares

	Notes	**2012 RMB'000**	2011 RMB'000
Authorised:			
5,000,000,000 ordinary shares			
(2011: 5,000,000,000) of US$0.01 each	(a)	**342,400**	342,400
Nil preference share (2011: Nil) of US$0.01 each	(b)	**–**	–
		342,400	342,400
Issued and fully paid:			
1,017,020,833 ordinary shares			
(2011: 995,720,000) of US$0.01 each	(a)	**67,466**	66,126
Nil preference share (2011: Nil) of US$0.01 each	(b)	**–**	–
		67,466	66,126

(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 2011		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, 1 January 2012 and 31 December 2012		5,000,000,000	50,000	342,400
Issued:				
At 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	(iii)	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	(iv)	250,000,000	2,500	16,603
Repurchase and cancellation of shares	(v)	(4,280,000)	(43)	(284)
At 31 December 2011 and 1 January 2012		995,720,000	9,957	66,126
Issuance of new shares on 21 December 2012	(vi)	21,806,833	218	1,372
Repurchase and cancellation of shares	(vii)	(506,000)	(5)	(32)
At 31 December 2012		1,017,020,833	10,170	67,466

27. SHARE CAPITAL (continued)

Shares (continued)

(b) Preference shares

	Note	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 2011	(i)	1	–	–
Preference share redesignated as ordinary share on 28 January 2011	(i)	(1)	–	–
At 31 December 2011, 1 January 2012 and 31 December 2012		–	–	–
Issued:				
At 1 January 2011		1	–	–
Preference share redesignated as ordinary share on 28 January 2011	(i)	(1)	–	–
At 31 December 2011, 1 January 2012 and 31 December 2012		–	–	–

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 of 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 (iv) 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) 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 2011, 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 (iv) below.

(iv) 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.

27. SHARE CAPITAL (continued)

Shares (continued)

Notes: (continued)

(v) During the year ended 31 December 2011, 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 in last 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 29 to the financial statements.

(vi) On 7 December 2012, the Company allotted and issued 21,806,833 ordinary shares of US$0.01 each at a price of approximately HK$1.02 per share to the Subscriber for payment of interest accrued on the Convertible Notes of HK$6,160,000 and the first instalment of HK$16,000,000 due on 21 December 2012. This resulted in an increase in issued share capital by RMB1,372,000 and share premium account by RMB13,103,000.

(vii) During the year, 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$439,000 (equivalent to RMB357,000). The 506,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK$400,000 (equivalent to RMB325,000) 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, as set out in note 29 to the financial statements.

28. 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.

28. SHARE OPTION SCHEME (continued)

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 year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**1.18**	**35,000,000**	–	–
Granted during the year	**–**	**–**	1.18	35,000,000
Forfeited during the year	**1.18**	**(1,000,000)**	–	–
At 31 December	**1.18**	**34,000,000**	1.18	35,000,000

No share options were granted and exercised, and 1,000,000 share options were forfeited during the year ended 31 December 2012.

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

- 10,250,000 of such share options were 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.

28. SHARE OPTION SCHEME (continued)

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

2012

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

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 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 RMB5,156,000 (2011: RMB2,103,000) during the year ended 31 December 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 3.3% 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 approximately HK$2,635,000 (equivalent to RMB2,137,000) and share premium of approximately HK$37,485,000 (equivalent to RMB30,397,000), before issue expenses.

29. RESERVES

(a) Group

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

(i) Contributed surplus

On 17 January 2011, CITIC Capital, the Company and its shareholders have entered into certain conditional release and discharge agreements, pursuant to which, the new exchangeable note would be duly released and discharged, which has taken place on the Listing Date, 28 January 2011, and prior to the commencement of the trading of the Company's shares on the Stock Exchange. Accordingly, the liability component of the new exchangeable note of 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.

Pursuant to the Stock Borrowing Agreement entered into with the Subscriber on 21 June 2012, the Stock Lender lent 32,000,000 ordinary shares of the Company to the Subscriber. Upon initial recognition, the value of such contribution amounting to approximately RMB12,183,000 from the substantial shareholder is accounted for as a deemed contribution in shareholders' equity. The carrying amount of such contribution from the substantial shareholder is not remeasured in subsequent years.

(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.

29. 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
At 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	27	(49,800)	–	–	–	–	(49,800)
Issue of shares	27	410,747	–	–	–	–	410,747
Share issue expenses		(18,477)	–	–	–	–	(18,477)
Shares repurchased	27	(3,456)	–	284	–	(284)	(3,456)
Equity-settled share option arrangements	28	–	–	–	2,103	–	2,103
Interim 2011 dividend	12	–	–	–	–	(16,309)	(16,309)
Transfer from the liability component of the exchangeable note to contributed surplus		–	57,768	–	–	–	57,768
At 31 December 2011 and 1 January 2012		**360,781**	**382,843**	**284**	**2,103**	**24,302**	**770,313**
Loss for the year and total comprehensive loss for the year		–	–	–	–	(70,963)	(70,963)
Issue of shares	27	13,103	–	–	–	–	13,103
Shares repurchased	27	(325)	–	32	–	(32)	(325)
Equity-settled share option arrangements	28	–	–	–	5,156	–	5,156
Final 2011 dividend	12	–	–	–	–	(24,360)	(24,360)
Interim 2012 dividend	12	(20,354)	–	–	–	–	(20,354)
Increase in contributed surplus under the Stock Borrowing Arrangement	25	–	12,183	–	–	–	12,183
At 31 December 2012		**353,205**	**395,026**	**316**	**7,259**	**(71,053)**	**684,753**

29. RESERVES (continued)

(b) Company (continued)

The loss of RMB70,963,000 (2011: profit of RMB56,592,000) for the year ended 31 December 2012 included a management fee of RMB11,395,000 to a subsidiary of the Company (2011: dividend income of RMB61,000,000 from a subsidiary of the Company).

On 17 January 2011, CITIC Capital, the Company and its shareholders have entered into certain conditional release and discharge agreements, pursuant to which, the new exchangeable note would be duly released and discharged, which has taken place on the Listing Date, 28 January 2011, and prior to the commencement of the trading of the Company's shares on the Stock Exchange. Accordingly, the liability component of the new exchangeable note of 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.

Pursuant to the Stock Borrowing Agreement entered into with the Subscriber on 21 June 2012, the Stock Lender lent 32,000,000 ordinary shares of the Company to the Subscriber. Upon initial recognition, the value of such contribution amounting to approximately RMB12,183,000 from the substantial shareholder is accounted for as a deemed contribution in shareholders' equity. The carrying amount of such contribution from the substantial shareholder is not remeasured in subsequent years.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) The Company has redeemed the first installment of the Convertible Notes with a fair value of RMB14,475,000 by issuing 21,806,833 ordinary shares to the Subscriber. This resulted in an increase in issued share capital by RMB1,372,000 and share premium account by RMB13,103,000 (note 27(a)(vi)).

(b) During the year ended 31 December 2012, a wholly-owned subsidiary of the Company entered into several agreements to purchase plant and equipment and decoration work of a building for a total consideration of RMB30,579,000. As at 31 December 2012, a total consideration of RMB19,127,000 was paid. The remaining balance of the consideration of RMB11,452,000 was included in deposits received, other payables and accruals as at 31 December 2012 (note 23).

31. 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	
	2012 **RMB'000**	2011 RMB'000
Within one year	**4,296**	1,804
In the second to fifth years, inclusive	**6,133**	–
	10,429	1,804

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

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments at the end of the reporting period:

	2012 **RMB'000**	2011 RMB'000
Contracted for capital commitment in respect of investment in Quanzhou Baofeng	**148,171**	65,171
Contracted for commitments in respect of:		
– advertising and consultancy services	**450**	689
– research and development	**1,167**	1,667
– property, plant and equipment	**450**	1,800
– product licences	**8,451**	7,020
– manufacturing and distributorship licence	**23,256**	25,519
	33,774	36,695

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

33. RELATED PARTY TRANSACTIONS

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

	2012 RMB'000	2011 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,080	2,325
Equity-settled share option expense	3,081	1,260
Pension scheme contributions	25	4
	6,186	3,589

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2012 and 2011 are as follows:

Financial assets – loans and receivables

Group

	2012 RMB'000	2011 RMB'000
Trade receivables	142,582	122,705
Other receivables (note 20)	4,933	4,929
Pledged deposits	70	382,004
Cash and bank balances	1,035,600	694,816
	1,183,185	1,204,454

Company

	2012 RMB'000	2011 RMB'000
Due from a subsidiary (note 17)	598,417	415,769
Pledged deposits	–	382,004
Cash and bank balances	279	840
	598,696	798,613

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	2012			2011
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at amortised cost RMB'000
Trade and bills payables	–	87,638	87,638	60,488
Other payables (note 23)	–	26,063	26,063	15,255
Accruals (note 23)	–	15,278	15,278	1,619
Interest-bearing bank borrowings	–	40,732	40,732	383,910
Convertible notes	146,133	–	146,133	–
Warrants	10,337	–	10,337	–
	156,470	169,711	326,181	461,272

Company

	2012			2011
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at amortised cost RMB'000
Other payables (note 23)	–	1,733	1,733	49
Accruals (note 23)	–	282	282	86
Due to a subsidiary (note 17)	–	3,162	3,162	3,311
Interest-bearing bank borrowings	–	–	–	318,910
Convertible notes	146,133	–	146,133	–
Warrants	10,337	–	10,337	–
	156,470	5,177	161,647	322,356

35. 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 31 December 2012

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Convertible Notes	–	146,133	–	146,133
Warrants	–	10,337	–	10,337

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

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank borrowings, convertible notes, warrants, 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:

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales transactions and financing denominated in United States dollars ("US$") and Hong Kong dollars ("HK$"). As the HK$ is virtually pegged to the US$, the Group does not expect any significant movements in the US$/HK$ exchange rates and accordingly.

The following table demonstrates the sensitivity at the end of the 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
2012		
If US$ strengthens against RMB	5	(6,870)
If US$ weakens against RMB	(5)	6,870
2011		
If US$ strengthens against RMB	5	(11,774)
If US$ weakens against RMB	(5)	11,774

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, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

36. 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
2012	100	–
2011	100	864

Liquidity risk

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

2012

	On demand RMB'000	**Less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Trade and bills payables	**–**	**87,638**	**–**	**87,638**
Other payables (note 23)	**26,063**	**–**	**–**	**26,063**
Accruals (note 23)	**–**	**15,278**	**–**	**15,278**
Interest-bearing bank borrowings	**–**	**42,049**	**–**	**42,049**
Convertible notes	**–**	**38,923**	**90,821**	**129,744**
Warrants	**–**	**–**	**10,337**	**10,337**
	26,063	**183,888**	**101,158**	**311,109**

2011

	On demand RMB'000	Less than 12 months RMB'000	Total RMB'000
Trade and bills payables	–	60,488	60,488
Other payables (note 23)	15,255	–	15,255
Accruals (note 23)	–	1,619	1,619
Interest-bearing bank borrowings	–	387,170	387,170
	15,255	449,277	464,532

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

2012

	On demand RMB'000	Less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Other payables (note 23)	**1,733**	**–**	**–**	**1,733**
Accruals (note 23)	**–**	**282**	**–**	**282**
Due to a subsidiary (note 17)	**3,162**	**–**	**–**	**3,162**
Convertible notes	**–**	**38,923**	**90,821**	**129,744**
Warrants	**–**	**–**	**10,337**	**10,337**
	4,895	**39,205**	**101,158**	**145,258**

2011

	On demand RMB'000	Less than 12 months RMB'000	Total RMB'000
Other payables (note 23)	49	–	49
Accruals (note 23)	–	86	86
Due to a subsidiary (note 17)	3,311	–	3,311
Interest-bearing bank borrowings	–	387,170	387,170
	3,360	387,256	390,616

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustment to it in 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 2012 and 2011.

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Trade and bills payables	**87,638**	60,488
Deposits received, other payables and accruals	**59,211**	33,610
Interest-bearing bank borrowings	**40,732**	383,910
Convertible notes	**146,133**	–
Warrants	**10,337**	–
Total debt	**344,051**	478,008
Equity attributable to owners of the Company	**1,056,603**	915,928
Total equity plus total debt	**1,400,654**	1,393,936
Gearing ratio	**25%**	34%

37. EVENTS AFTER THE REPORTING PERIOD

As detailed in note 25, the Company has entered into the Supplemental Warrant Instrument on 7 February 2013, pursuant to which the Subscription Price has been adjusted from HK$1.53 to HK$1.49 per share with effect from 12 October 2012 as a result of the distribution of the 2012 interim dividend of HK2.5 cents per ordinary share by the Company.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.