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2013 ANNUAL REPORT

BAOFENG 1121.HK www.baofengmodern.com

Baofeng Modern International Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code :1121

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. ZHENG Jingdong (Chairman)
Mr. ZHANG Aiguo (Vice-chairman)

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. YU Wai Cheong (CPA)

STOCK CODE

01121

COMPANY WEBSITE

www.baofengmodern.com

Designed & Produced by HeterMedia Services Limited

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Licheng District
Quanzhou City
Fujian Province
PRC

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Hong Kong

REGISTERED OFFICE

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Cayman Islands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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Hong Kong

AUDITOR

Pan-China (H.K.) CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong)
China Bank of Construction

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FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2013	2012	2011	2010	2009
Profitability data (RMB million)					
Revenue	**624.1**	1,351.5	1,117.7	833.3	588.6
Gross profit	**186.9**	466.0	373.1	275.2	165.4
Operating profit	**99.5**	242.3	236.6	159.4	118.8
Profit for the year	**67.9**	153.9	160.7	114.2	70.1
Profitability ratios (%)					
Gross profit margin	**30.0%**	34.5%	33.4%	33.0%	28.1%
Operating profit margin	**15.9%**	17.9%	21.2%	19.1%	20.2%
Net profit margin	**10.9%**	11.4%	14.4%	13.7%	11.9%
Assets and liabilities data (RMB million)					
Non-current assets	**138.2**	150.6	126.9	83.0	87.6
Current assets	**1,313.5**	1,277.5	1,288.5	477.8	342.8
Current liabilities	**326.2**	368.4	499.5	254.3	203.2
Non-current liability	**3.1**	3.1	0.0	0.0	3.5
Shareholders' equity	**1,122.4**	1,056.6	915.9	306.5	223.6
Asset and working capital data					
Current asset ratios (%)	**90.5%**	89.5%	91.0%	85.2%	79.7%
Current ratios (time)	**4.0x**	3.5x	2.6x	1.9x	1.7x
Gearing ratios (%)	**22.5%**	24.6%	34.3%	36.6%	46.3%

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Baofeng Modern International Holdings Company Limited ("Baofeng Modern" or the "Company"), I am pleased to present the financial report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

The past year represented great challenge for the Group. With the slowdown of economic growth in China and the downturn in the international economy, the retail market was badly hit, and the consumption sentiment and purchasing power of customers were significantly dampened. Continuous appreciation of the RMB and worsening inflation in China led to rising costs for raw materials and labor, resulting in higher production costs. Meanwhile, the rising rents, labor and other costs added to the operating pressure of the distributors. Being impacted by these factors and with the intensified market competition, the sales of the Group was significantly affected, undermining the profitability of the Group.

Looking ahead, the Directors are cautious and pessimistic about the prospect of operation in China, and we expect that the adverse operating environment will continue to affect the business of the Group. The Directors will carefully consider other investment opportunities, so as to make proper deployment of existing resources, such as reduction in the existing assets of the Group and introduction of business with growth potential to the Group, with an aim to maximize the interests of shareholders.

Last but not least, on behalf of the Board, I would like to thank our management and all staff for their dedication and contribution to the development of the Group. I would also like to take this opportunity to express my sincere gratitude to our customers, suppliers, business partners and shareholders for their continuous commitment and support.

ZHENG Jingdong
Chairman

Hong Kong, 25 March 2014


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FASHION SHOW


boree
2014

MANAGEMENT DISCUSSION & ANALYSIS

With the slowdown of economic growth in Mainland China and the downturn in the United States and the Europe sustained throughout 2013, the Group faced strong headwinds on a number of challenges in 2013. The Group recorded a significant decline of revenue, gross profit and net profit for the year ended 31 December 2013. Revenue decreased by 53.8% from last year to approximately RMB624.1 million (2012: RMB1,351.5 million). Gross profit margin declined by 4.5 percentage points to 30.0% (2012: 34.5%). Besides, the performance of our own branded products was also affected by the decelerated growth of Mainland China. The revenue from our two own brands was approximately RMB315.4 million, decreased by 57.7% and accounted for 50.5% of the Group's total revenue. The brand licensee business contributed approximately RMB13.9 million to the Group's revenue. During the year, the fair value gain of convertible notes and warrants at fair value through profit or loss was recognised in an amount of approximately RMB17.1 million (2012: fair value loss of RMB39.7 million), and as a result, the net profit of the Group for the year amounted to approximately RMB67.9 million (2012: RMB153.9 million).

Own branded businesses accounted for

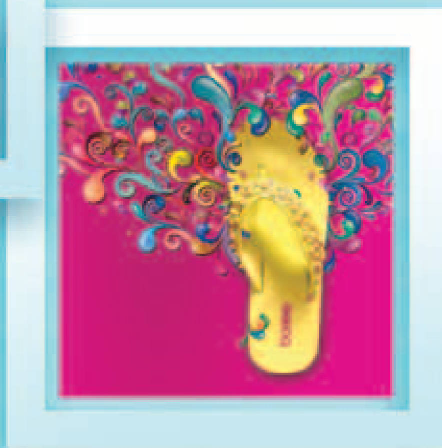
51%

of Total Revenue

BUSINESS REVIEW

Own Branded Business

The depressed economic growth of China led to an adverse operating environment for China retail market. The Boree brand, targeting the medium-to-high-end market of slippers, sandals and casual footwear, recorded a revenue for the year amounted to approximately RMB224.5 million (2012: RMB526.9 million), representing a 57.4% decrease from the previous year. On the other hand, the Baofeng brand, focusing on the mass market, also suffered the decline in sales during the year. Revenue generated from the Baofeng brand amounted to approximately RMB90.9 million, representing a decrease of 58.4% from approximately RMB218.6 million in 2012.



Brand Licensee Business

The performance of brand licensee business in the year was below our expectation. For both the Fall/Winter sales fair held in May and the Spring/Summer sales fair held in October 2013, the sales of the licensed brands were unsatisfactory. Furthermore, the sales of our NBA concept store "NBA Home" in Beijing and NBA licensed products were recorded a weak sales for the year.

Overseas Business

Due to the decline of worldwide economy, the performance of overseas markets was disappointed. Our main overseas markets previously established in Indonesia, the Philippines, Singapore and Malaysia recorded decrease in sales. Several stores of distributors which recorded operating losses were being closed down and led to the further effect on the decrease in sales performance.

Original Equipment Manufacturer ("OEM") Business

During the year, the sales of Group's OEM business declined. Revenue generated from the OEM business amounted to approximately RMB294.8 million for the year (2012: RMB584.4 million), representing a decrease of 49.6% as compared with last year. The decline in OEM business was mainly due to the unfavorable and uncertain worldwide economy.

FINANCIAL REVIEW

Revenue by Product Category

	2013 RMB'000	2012 RMB'000	Decrease %
Revenue (Total)	**624,122**	1,351,544	(53.8%)
Revenue (Boree Products)	**224,470**	526,858	(57.4%)
Revenue (Baofeng Products)	**90,888**	218,596	(58.4%)
Revenue (Licensed Brand Business)	**13,928**	21,658	(35.7%)
Revenue (OEM Business)	**294,836**	584,432	(49.6%)

For the year under review, the revenue of the Group decreased by 53.8% to approximately RMB624.1 million. Revenue from Boree brand products decreased by 57.4% to approximately RMB224.5 million as compared with that of last year while revenue from Baofeng brand products decreased by 58.4% to approximately RMB90.9 million. The business from the OEM business decreased and the revenue decreased by 49.6% as compared with that of last year. During the year, the brand licensee business contributed approximately RMB13.9 million to the revenue of the Group.

Selling and Distribution Costs

During the year, selling and distribution costs decreased by 58.1% to approximately RMB48.7 million as compared with that of last year (2012: RMB116.4 million), which accounted for 7.8% (2012: 8.6%) of the Group's revenue. The decrease was consistent with the decrease in the Group's revenue and the decline in marketing and advertising expenses.

General and Administrative Expenses

During the year, general and administrative expenses recorded a decrease of 16.2% to approximately RMB61.0 million (2012: RMB72.8 million) as compared with that of last year, which accounted for 9.8% (2012: 5.4%) of the Group's revenue. The decrease was mainly due to the decrease in salaries and wages.

Liquidity and Financial Resources

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB75.0 million (2012: RMB227.2 million). As at 31 December 2013, cash and bank balances were approximately RMB1,173.5 million, representing a net increase of 13.3% as compared with approximately RMB1,035.6 million as at 31 December 2012. The interest-bearing bank borrowings of the Group as at 31 December 2013 was approximately RMB142 million (31 December 2012: RMB40.7 million). All bank loans are repayable within one year.

Pledge of Assets

As at 31 December 2013, the Group secured its bills payables by the pledge of its time deposits amounting to approximately RMB5.5 million (2012: RMB70,000). The Group also secured its bank borrowings by the pledge of the Group's buildings and land use right amounting to approximately RMB25.5 million and approximately RMB5.2 million (2012: Nil). As at 31 December 2012, the Group secured its bank borrowings by the pledge of the Group's trade receivables amounting to approximately RMB6.4 million.

Contingent Liabilities

As at 31 December 2013 and 31 December 2012, the Group had no material contingent liabilities.

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 2013, the gearing ratio of the Group was 22.5% (as at 31 December 2012: 24.6%). 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 2013, the Group has a total of approximately 1,000 employees (as at 31 December 2012: 2,700 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 2013 is set out as follows:

Nature	Amount raised RMB'000	Amount utilised RMB'000
To increase production capacity	135,683	77,609
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	8,107
To establish flagship shops and showrooms	19,383	3,328
To strengthen the distribution resource planning system	19,383	4,178
General working capital	38,767	38,767
Total:	387,666	228,906

Future Prospects

In view of the uncertainties in the domestic and global economy, continuous sluggish consumption sentiment in Mainland China and the unprecedented RMB appreciation pressure during the year, the management expects that the market prospect will remain uncertain and the year of 2014 will be challenging, thus the Group remains prudent about its performance in 2014.

Nevertheless, the Group will strive to enhance the brand image by employing multinational trendy design teams to design the latest products for Boree, and use the new generation of shelves in stores that sell Boree products to optimize the visual effects, so as to strengthen product appeal and consumer confidence in our products, enabling the Group to enhance its competitiveness at a time of difficulties.

On the other hand, as the internet develops rapidly and online sales platforms become more mature, online shopping becomes increasingly popular. Given the strong growth in online sales, we intend to expand e-commerce sales channel and open online stores, so as to establish an interactive, simple and convenient platform to promote our products on the internet.

In addition to the existing business, the Group is seeking for other supply sources for the investment projects, so as to control costs and ensure a stable supply as well as to diversify its business base, effectively mitigating operating risk and maximising returns to the shareholders of the Company.

CORPORATE GOVERNANCE REPORT

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

Throughout the year ended 31 December 2013, the Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except where otherwise stated.

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 Jingdong (Appointed as Chairman and Chief Executive Officer on 10 May 2013)
  - Mr. ZHANG Aiguo (Vice-Chairman)
  - Mr. CHEN Qingwei (Resigned on 10 May 2013 but remains as a consultant)
  - Mr. ZHENG Liuhe (Retired on 10 May 2013)

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

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

The biographical details of the Directors are disclosed in the section headed "Biographical details of Directors" on pages 24 to 26. 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").

To the best knowledge of the Company, 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 2013	Number of AGM attended/held in 2013
Executive Directors		
Mr. ZHENG Jingdong	5/5	1/1
Mr. ZHANG Aiguo	4/5	0/1
Mr. ZHENG Liuhe (Retired on 10 May 2013)	1/1	N/A
Mr. CHEN Qingwei (Resigned on 10 May 2013 but remains as a consultant)	1/1	N/A
Non-executive Directors		
Mr. SZE Ching Bor	5/5	0/1
Mr. CHEUNG Miu	3/5	0/1
Independent Non-executive Directors		
Professor BAI Changhong	2/5	0/1
Mr. LEE Keung	5/5	1/1
Ms. AN Na	2/5	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 and compliance with all legal and regulatory requirements, monitoring the training and continuous professional development of Directors and senior management, development and reviewing of the code of conduct and compliance manual (if any) applicable to employees and Director and reviewing the compliance with the CG Code, and ensuring proper disclosure in the corporate governance report of the Company.

Continuous Professional Development of Directors

All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all the Directors have participated in appropriate continuous professional development activities by attending training course or reading materials on the topics related to corporate governance and regulations or the Company's business or their duties and responsibilities.

The individual training record of each Director received for the year ended 31 December 2013 is summarised below:

	Attending seminar(s)/ programme(s)/ reading relevant materials in relation to the business or directors' duties
Mr. Zheng Jingdong	✓
Mr. Zhang Aiguo	✓
Mr. Zheng Liuhe (Retired on 10 May 2013)	✓
Mr. Chen Qingwei (Resigned on 10 May 2013 but remains as a consultant)	✓
Mr. Sze Ching Bor	✓
Mr. Cheung Miu	✓
Professor Bai Changhong	✓
Mr. Lee Keung	✓
Ms. An Na	✓

Chairman and Chief Executive Officer

Code Provision A.2.1. provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this provision because Mr. Zheng Jingdong has been performing both the roles of Chairman and Chief Executive Officer. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of the roles of Chairman and Chief Executive Officer is necessary.

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 month 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 CG Code as set out in appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system and review and monitor appointment of the auditors and their independence. 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 2013 have been reviewed by the audit committee. The audit committee held four meetings during the year. Details of the attendance of the audit committee at the four meetings are as follow:

Mr. Lee Keung	4/4
Professor Bai Changhong	2/4
Ms. An Na	4/4

Remuneration Committee

The Board established the remuneration committee on 8 January 2011 with written terms of reference in compliance with the CG Code as set out in appendix 14 of the Listing Rules. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. 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	0/1
Professor Bai Changhong	1/1
Mr. Lee Keung	1/1

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

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

Details of remuneration of each director of the Company for the year ended 31 December 2013 are set out in note 9 to the financial statements contained in the annual report.

Nomination Committee

On 8 January 2011, the Board established the nomination committee with written terms of reference in compliance with CG Code as set out in appendix 14 of the Listing Rules. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of Directors. The nomination committee comprises the three independent non-executive Directors, namely 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	1/1
Mr. Lee Keung	1/1
Ms. An Na	0/1

During the year, the nomination committee has reviewed the size, structure and composition of the Board. The committee also reviewed the 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.

Board Diversity Policy

During the year, the Group adopted a board diversity policy (the "Policy") setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Group considered the diversity of the board members can be achieved through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.

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.

Internal Control

The Board has the responsibility to maintain an effective internal control system in order to protect the Group's assets and shareholders' interests. The Board and Audit Committee also conduct periodic reviews to ensure the effectiveness of the Group's internal control system. The internal control system includes a well established corporate structure and organisation with clearly defined lines of responsibility and authority. Each department is responsible for its daily operations, and is also required to implement and monitor the strategies and polices adopted by the Board and effective employment of the resources of the Company, in order to avoid misappropriation of resources and damages made to the Company's assets, and prevent against errors and fraud.

The Board and Audit Committee assess the effectiveness of the internal control system and procedures based on information derived from discussions with the management of the Company and its external auditor. The Board and Audit Committee believe that the existing internal control system is adequate and effective. The review covers all material controls, including financial, operational and compliance controls and risk management functions as well as the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board has established a clearly defined scope of activities, responsibility and authority for each department and its management staff within the Group. The Group has a defined goal for each department to accomplish, these goals were discussed in the Board meeting and pass on to the management through the executive Directors. These goals will be implemented and closely monitored by the executive Directors who shall review the operational and financial results from time to time, and to take any necessary actions for the improvement of it business activities.

Auditors' Remuneration

During the year, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Pan-China (H.K.) CPA Limited, were RMB1,504,000 and nil.

Investor Relations and Communication with Shareholders

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

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at 20/F, The Pemberton, No. 22-26 Bonham Strand, Hong Kong.

Code Provision A.6.7. provides that non-executive directors and independent non-executive directors should attend annual general meeting and develop a balanced understanding of the views of the shareholders. The Company deviates from this provision because the non-executive Directors, Mr. Sze Ching Bor and Mr. Cheung Miu and the independent non-executive Directors, Professor Bai Changhong and Ms. An Na did not attend the annual general meeting held on 30 May 2013 due to their business commitments.

Code Provision E.1.2. provides that the chairmen of remuneration and nomination committee should attend the annual general meeting to answer questions and collect views of shareholders. Due to other business commitments, the chairmen of remuneration and nomination committee, Ms. An Na and Professor Bai Changhong were unable to attend the annual general meeting held on 30 May 2013.

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, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. ZHENG Jingdong (鄭景東先生)

Mr. Zheng Jingdong, aged 48, is the chairman of the Board, chief executive officer of the Group and an executive Director. He has been a Director since 21 July 2008. Mr. Zheng has more than 10 years of experience in the slipper business in the PRC. He has been appointed as a director of Quanzhou Baofeng Shoes Co Ltd ("Quanzhou Baofeng") since 28 March 2007 and as a director of Baof International Limited ("Baof HK") since 21 July 2008. He has been appointed as the chairman of the Board and chief executive officer of the Group on 10 May 2013.

Mr. ZHANG Aiguo (張愛國先生)

Mr. Zhang Aiguo, aged 56, vice-chairman of the Board and an executive Director. 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 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.

Non-executive Directors

Mr. SZE Ching Bor (史清波先生)

Mr. Sze Ching Bor, aged 66, is the founder of the Group and he was appointed as a non-executive Director on 30 June 2010.

Mr. CHEUNG Miu (張渺先生)

Mr. Cheung Miu, aged 44, a non-executive Director, has been a Director of the Company and director of Baof HK since 22 September 2008 and resigned as director of Baof HK on 3 August 2011. 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 Changhong, aged 48, 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 Keung, aged 45, 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 54, 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》雜誌社 (Beijing Rayli Magazine House) since 2003 at which she has been responsible for managing and co-ordinating the publication of several fashion magazines. She received an editor's qualification from 國務院國有資產監督管理委員會 (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.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2013.

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 18 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 2013 are set out in note 18 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 100.

The Board does not recommend payment of a final dividend for the year ended 31 December 2013 (2012: nil).

Summary financial information

A summary of the financial information of the Group for the last five financial years is set out on page 3 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 15 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 29 and 30 to the financial statements.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased and cancelled its 3,300,000 shares on the Stock Exchange. Details of the share repurchases are set out below:

Month of repurchase	Number of shares repurchased	Purchase price per share Highest	Lowest	Total paid
		HK$	HK$	HK$
March	3,300,000	0.93	0.92	3,059,000

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 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB680,098,000. The amount of RMB680,098,000 includes the Company's share premium account and contributed surplus of RMB745,961,000 in aggregate at 31 December 2013, 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 RMB349,170.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 33.2% of the total sales for the year and sales to the largest customer included therein amounted to 11.5%.

Purchases from the Group's five largest suppliers accounted for 19.7% of the total purchases for the year and purchase from the Group's largest supplier included therein amounted to 5.1% 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 Jingdong *(Chairman)* (Appointed on 10 May 2013)
  Mr. ZHANG Aiguo *(Vice-chairman)*
  Mr. ZHENG Liuhe *(Former Chairman)* (Retired on 10 May 2013)
  Mr. CHEN Qingwei (Resigned on 10 May 2013 but remain as consultant)

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

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

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

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

As such, Mr. ZHENG Jingdong, Mr. ZHANG Aiguo and Mr. Sze Ching Bor will retire from office as directors at the forthcoming annual general meeting and will offer themselves for re-election.

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

Biographical details of the directors

The biographical details of the Directors are set out on pages 24 to 26 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 35 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 2013, 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(2)
Mr. Sze Ching Bor	Interest in controlled corporation	519,035,767	51.20%

Long positions in share options of the Company:

Name of Director	Capacity and nature of interest	Number of options held(1)	Percentage of the Company's issued share capital(2)
Mr. Zheng Jingdong	Beneficial owner	2,750,000	0.27%
Mr. Zhang Aiguo	Beneficial owner	1,500,000	0.15%

Note:

(1) 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").

(2) The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2013 (i.e. 1,013,720,833 shares).

Save as disclosed above, as at 31 December 2013, 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 30 to the financial statements.

The following table discloses the outstanding share options under the Share Option Scheme as at 31 December 2013:

		Number of options							
Name or Category of participants	Date of grant (Note 1)	Outstanding as at 1 January 2013 (Note 5)	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	Outstanding as at 31 December 2013	Exercise period (Note 2)	Exercise price per share (HK$)
Executive Directors									
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	–	–	–	(2,750,000)	2,750,000		
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	–	–	–	(1,500,000)	1,500,000		
Sub-total		8,500,000	–	–	–	(4,250,000)	4,250,000		

		Number of options							
Name or Category of participants	Date of grant (Note 1)	Outstanding as at 1 January 2013 (Note 5)	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	Outstanding as at 31 December 2013	Exercise period (Note 2)	Exercise price per share (HK$)
Employees of the Group									
In aggregate	30/8/2011	6,000,000	–	–	–	–	6,000,000	A	1.18
	30/8/2011	12,750,000	–	–	–	(12,750,000)	–	B	1.18
	30/8/2011	6,750,000	–	–	–	(3,050,000)	3,700,000	C	1.18
Sub-total		25,500,000	–	–	–	(15,800,000)	9,700,000		
Total		34,000,000	–	–	–	(20,050,000)	13,950,000		

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.

5 As Mr. Chen Qingwei has resigned as executive director of the Company and re-designated as a consultant of the Company with effect from 10 May 2013, the nature of the category of participants of the share options granted to him has been shifted from "Executive Director" to "Employees of the Group".

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 2013, 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[11]
Mr. Sze Ching Bor [1]	Interest in controlled corporation	519,035,767 (L)	51.20%
Ms. Tsang Shuk Ping [2]	Spousal interest	519,035,767 (L)	51.20%
Best Mark International Limited [1]	Beneficial owner/Other	473,876,157 (L)	46.75%
Asia Equity Value Ltd.	Beneficial owner	171,282,121 (L)	16.90%
		32,000,000 (S)	3.16%
CITIC Limited	Interest in controlled corporation	85,325,500 (L)	8.42%
RBS AA Holdings (UK) Limited	Interest in controlled corporation	85,325,500 (L)	8.42%
CITIC Capital China Mezzanine Fund Limited ("CITIC Capital")	Beneficial owner	85,325,500 (L)	8.42%
Multifield International Limited [3]	Interest in controlled corporation	85,325,500 (L)	8.42%
CITIC Capital Investment Holdings Limited [4]	Interest in controlled corporation	85,325,500 (L)	8.42%
CITIC Capital Holdings Limited [5]	Interest in controlled corporation	85,325,500 (L)	8.42%
CITIC Group [6]	Interest in controlled corporation	85,325,500 (L)	8.42%
Warlord Investment Corporation [7]	Interest in controlled corporation	85,325,500 (L)	8.42%
The Royal Bank of Scotland N.V. [8]	Interest in controlled corporation	85,325,500 (L)	8.42%
The Royal Bank of Scotland Group plc. [9]	Interest in controlled corporation	85,325,500 (L)	8.42%
RBS Holdings N.V. [10]	Interest in controlled corporation	85,325,500 (L)	8.42%

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 46.75% and 4.45%, respectively, of the issued share capital of the Company. Best Mark beneficially owns 441,876,157 Shares and is interested in 32,000,000 Shares as a result of its right under a stock borrowing agreement to the return of 32,000,000 Shares it has lent.

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

(3) Multifield International Limited owns 33.33% of CITIC Capital China Mezzanine Fund Limited ("CITIC Capital"). Accordingly, Multifield International Limited is deemed to be interested in the Shares in which CITIC Capital is interested for the purpose of Part XV of the SFO.

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

(5) CITIC Capital Holdings Limited wholly owns CITIC Capital Investment Holdings Limited and is deemed to be interested in the Shares in which CITIC Capital Investment Holdings Limited is interested for the purpose of Part XV of the SFO. CITIC Limited owns 55% of CITIC Capital Holdings Limited and is deemed to be interested in the Shares in which CITIC Capital Holdings Limited is interested for the purpose of Part XV of the SFO.

(6) CITIC Group owns 55% of CITIC Capital Holdings Limited and is deemed to be interested in the Shares in which CITIC Capital Holdings Limited is interested for the purpose of Part XV of the SFO.

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

(8) 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) The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2013. (i.e. 1,013,720,833 shares).

(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 2013, 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 35 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 30 to the financial statements

Auditor

Pan-China (H.K.) CPA Limited was appointed as auditor of the Company on 20 December 2013 upon the resignation of Ernst & Young. Apart from this, there has been no change of auditors of the Company in the past three years.

A resolution for the re-appointment of Pan-China (H.K.) CPA Limited as the Company's auditor is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

ZHENG Jingdong
Chairman

Hong Kong
25 March 2014

PAN-CHINA (H.K.) CPA LIMITED Certified Public Accountants
天健(香港)會計師事務所有限公司

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 (collectively referred to as the "Group") set out on pages 39 to 100, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 auditor's 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 auditor considers 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 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

The consolidated financial statements for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2013.

PAN-CHINA (H.K.) CPA LIMITED
Certified Public Accountants
Wong Ho Yuen, Gary
Practicing Certificate Number P01316

11/F., Hong Kong Trade Centre,
161-167 Des Voeux Road Central,
Hong Kong

25 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	6	**624,122**	1,351,544
Cost of sales		**(437,185)**	(885,501)
Gross profit		**186,937**	466,043
Other income and gains	6	**5,786**	5,319
Selling and distribution expenses		**(48,748)**	(116,427)
General and administrative expenses		**(61,010)**	(72,847)
Other operating expenses		**(603)**	(119)
Fair value gain/(loss) on financial liabilities at fair value through profit or loss	26	**17,116**	(39,658)
Profit from operations		**99,478**	242,311
Finance costs	7	**(4,621)**	(4,815)
PROFIT BEFORE TAX	8	**94,857**	237,496
Income tax expense	11	**(26,979)**	(83,564)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	12	**67,878**	153,932
EARNINGS PER SHARE	14		
– Basic (RMB)		**0.07**	0.15
– Diluted (RMB)		**N/A**	N/A

Details of the dividends are disclosed in note 13 to the consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**103,010**	110,004
Prepaid land lease payments	16	**35,175**	36,020
Prepaid rent	17	**–**	4,537
		138,185	150,561
CURRENT ASSETS			
Inventories	19	**32,417**	74,430
Trade receivables	20	**62,283**	142,582
Prepayments, deposits and other receivables	21	**38,092**	15,793
Value added tax recoverable		**1,675**	9,065
Pledged deposits	22	**5,546**	70
Cash and bank balances	22	**1,173,494**	1,035,600
		1,313,507	1,277,540
CURRENT LIABILITIES			
Trade and bills payables	23	**35,116**	87,638
Deposits received, other payables and accruals	24	**32,350**	59,211
Interest-bearing bank borrowings	25	**142,000**	40,732
Convertible notes	26	**79,946**	146,133
Warrants	26	**3,019**	10,337
Amount due to a director	27	**33,440**	–
Tax payable		**355**	24,376
		326,226	368,427
NET CURRENT ASSETS		**987,281**	909,113
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,125,466**	1,059,674
NON-CURRENT LIABILITY			
Deferred tax liability	28	**3,071**	3,071
Net assets		**1,122,395**	1,056,603
EQUITY			
Share capital	29	**67,258**	67,466
Reserves		**1,055,137**	989,137
Total equity		**1,122,395**	1,056,603

The consolidated financial statements on pages 39 to 100 were approved and authorised for issue by the board of directors on 25 March 2014 and signed on its behalf by:

ZHENG Jingdong
Director

ZHANG Aiguo
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Notes	Share capital RMB'000 (note 29)	Share premium RMB'000	Contributed surplus RMB'000 (note 31(a))	Statutory surplus fund RMB'000 (note 31(a))	Exchange fluctuation reserve RMB'000 (note 31(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 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	29	1,372	13,103	–	–	–	–	–	–	13,103	14,475
Repurchase and cancellation of shares	29	(32)	(325)	–	–	–	32	–	(32)	(325)	(357)
Equity-settled share option arrangements	30	–	–	–	–	–	–	5,156	–	5,156	5,156
Final 2011 dividend	13	–	–	–	–	–	–	–	(24,360)	(24,360)	(24,360)
Interim 2012 dividend	13	–	(20,354)	–	–	–	–	–	–	(20,354)	(20,354)
Increase in contributed surplus under Stock Borrowing Arrangement	26, 31	–	–	12,183	–	–	–	–	–	12,183	12,183
Transfer to statutory surplus fund		–	–	–	22,751	–	–	–	(22,751)	–	–
At 31 December 2012 and 1 January 2013		**67,466**	**353,205**	**141,376**	**87,576**	**155**	**316**	**7,259**	**399,250**	**989,137**	**1,056,603**
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	–	67,878	67,878	67,878
Repurchase and cancellation of shares	29	(208)	(2,270)	–	–	–	208	–	(208)	(2,270)	(2,478)
Equity-settled share option arrangements	30	–	–	–	–	–	–	(3,489)	3,881	392	392
Transfer to statutory surplus fund		–	–	–	7,902	–	–	–	(7,902)	–	–
At 31 December 2013		**67,258**	**350,935**	**141,376**	**95,478**	**155**	**524**	**3,770**	**462,899**	**1,055,137**	**1,122,395**

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**94,857**	237,496
Adjustments for:			
Interest income	6	**(4,141)**	(3,834)
Interest expenses	7	**4,621**	4,815
Depreciation	8	**9,558**	9,812
Amortisation of prepaid land lease payments	8	**845**	826
Loss on disposal of items of property, plant and equipment	8	**237**	101
Impairment losses of trade receivables	8	**1,162**	–
Write-down of inventories	8	**7,805**	–
Equity-settled share option expense	8	**392**	5,156
Fair value (gain)/loss on financial liabilities at fair value through profit or loss	26	**(17,116)**	39,658
Operating cash flow before changes in working capital		**98,220**	294,030
Decrease in a deposit		**–**	250
Decrease/(increase) in inventories		**34,208**	(4,741)
Decrease/(increase) in trade receivables		**79,137**	(19,877)
Increase in prepayments, deposits and other receivables		**(17,762)**	(6,868)
Decrease/(increase) in value added tax recoverable		**7,390**	(3,196)
(Decrease)/increase in trade and bills payables		**(52,522)**	27,150
(Decrease)/increase in deposits received, other payables and accruals		**(26,861)**	14,149
Cash generated from operations		**121,810**	300,897
Interest received		**4,141**	3,834
PRC taxes paid		**(51,000)**	(77,580)
Net cash flows from operating activities		**74,951**	227,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,487)**	(19,127)
Proceeds from disposal of items of property, plant and equipment		**686**	420
(Increase)/decrease in pledged deposits		**(5,476)**	381,934
Net cash flows (used in)/from investing activities		**(8,277)**	363,227

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of convertible notes		**(56,389)**	–
Net proceeds from issue of convertible notes		**–**	143,470
New bank loans		**150,441**	107,767
Repayment of bank loans		**(49,173)**	(450,945)
Advance from director		**53,320**	–
Repayment to director		**(19,880)**	–
Repurchase of shares	29	**(2,478)**	(357)
Dividend paid		**–**	(44,714)
Interest paid		**(4,621)**	(4,815)
Net cash flows from/(used in) financing activities		**71,220**	(249,594)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**137,894**	340,784
Cash and cash equivalents at beginning of year		**1,035,600**	694,816
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,173,494**	1,035,600
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,173,494**	1,035,600

Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	18	**870,130**	902,075
CURRENT ASSETS			
Prepayments	21	**499**	4,236
Dividend receivable from a subsidiary	18	**–**	7,276
Cash and bank balances	22	**816**	279
		1,315	11,791
CURRENT LIABILITIES			
Other payables and accruals	24	**2,076**	2,015
Due to subsidiaries	18	**2,509**	3,162
Convertible notes	26	**79,946**	146,133
Warrants	26	**3,019**	10,337
Amount due to director	27	**32,245**	–
		119,795	161,647
NET CURRENT LIABILITIES		**(118,480)**	(149,856)
Net assets		**751,650**	752,219
EQUITY			
Share capital	29	**67,258**	67,466
Reserves	31(b)	**684,392**	684,753
Total equity		**751,650**	752,219

ZHENG Jingdong
Director

ZHANG Aiguo
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 places of business are located in Huoju Industrial Zone, Jiangnan Town, Licheng District, Quanzhou City, Fujian Province, the People's Republic of China ("PRC") and 20th Floor, The Pemberton, 22-26 Bonham Strand, Sheung Wan, Hong Kong. The shares of the Company are 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 18 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

The consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company.

In the opinion of the directors of the Company, 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following new and revised IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)") and Interpretations ("Int"), issued by the International Accounting Standards Board ("IASB") for the first time in current year:

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's consolidated 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The amendments to IFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised standards on consolidation and disclosures

In the current year, the Group has applied for the first time IFRS 10 and IAS 27 (revised 2011) together with the amendments to IFRS 10 regarding the transitional guidance. IAS 27 (revised 2011) is not applicable to the Group as it deals only with separate financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and I(SIC)-Int 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has controls over an investee when (a) it has power over an investee, (b) it is exposed, or rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power over the investee to affect its returns. All three of these criteria must be meet for an investor to have control over an investee. Previously, control was defined as power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance included in IFRS 10 to explain when an investor has control over an investee.

As a result of the initial application of IFRS 10, the directors of the Company made an assessment whether the Group has control over its investees at the date of initial application and concluded that the application of IFRS 10 does not result in any change in control conclusions.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments*[3]
Amendments to IFRSs	*Annual improvement to IFRSs 2010-2012 cycle*[4]
Amendments to IFRSs	*Annual improvement to IFRSs 2011-2013 cycle*[2]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[3]
Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*[1]
Amendments to IAS 19	*Defined Benefit Plans – Employee Contributions*[2]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[1]
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*[1]
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC – Int 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014. Early application is permitted.
2 Effective for annual periods beginning on or after 1 July 2014, expect as disclosed below. Early application is permitted.
3 Available the application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for convertible notes and warrants which are measured at fair value at the end of each reporting period as explained in the accounting policy set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit cost

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 in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are recognised as an expense 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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

Other benefits

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

All research costs are charged to the consolidated statement of profit or loss and other comprehensive income 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, pledged deposits and cash and bank balances are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of three months, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment loss on financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

– it has been incurred principally for the purpose of repurchasing in the near term; or

– on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. Fair value is determined in the manner described in note 38.

Other financial liabilities

Other financial liabilities including trade and bills payables, deposit received, other payables and accruals and interesting-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 profit or loss 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 profit or loss.

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 profit or loss as they arise.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, that are not readily apparent for other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying accounting policies (continued)

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.

Building and land use right

Despite the Group has paid the full purchase consideration as detailed in note 15, certain of the Group's rights to use of the building and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

Key sources of estimation uncertainty

The following are 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 resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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. As at 31 December 2013, the carrying amount of property, plant and equipment was approximately RMB103,010,000 (2012: RMB110,004,000).

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. As at 31 December 2013, the carrying amount of inventories was approximately RMB32,417,000 (2012: RMB74,430,000), net of allowance for write-down inventories approximately RMB7,805,000 (2012: Nil).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

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.

As at 31 December 2013, the carrying amount of trade receivables was approximately RMB62,283,000 (2012: RMB142,582,000), net of allowance for doubtful debt of approximately RMB1,162,000 (2012: Nil).

As at 31 December 2013, the carrying amount of other receivables was approximately RMB12,939,000 (2012: RMB4,933,000).

Valuation of convertible notes and warrants

As described in note 26 to the consolidated 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 30.

5. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group's reportable and operating segments are as follows:

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

(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 accounting policies of the operating segments are the same as the group's accounting policies described in note 3. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, other unallocated income and gains, fair value gain or 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 excluded property, plant and equipment, prepaid land lease payments, 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 excluded trade and bills payables, certain other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, amount due to a director and tax payable as these liabilities are managed on a group basis.

5. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segment.

Year ended 31 December 2013

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licence Business RMB'000	OEM RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	**224,470**	**90,888**	**13,928**	**294,836**	**624,122**
Segment results	**66,758**	**27,331**	**(5,588)**	**48,526**	**137,027**
Reconciliation:					
Interest income					**4,141**
Other unallocated income and gains					**1,645**
Corporate and other unallocated expenses					**(60,451)**
Fair value gain on financial liabilities at fair value through profit or loss					**17,116**
Finance costs					**(4,621)**
Profit before tax					**94,857**

Year ended 31 December 2012

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licence 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					1,485
Corporate and other unallocated expenses					(72,966)
Fair value loss on financial liabilities at fair value through profit or loss					(39,658)
Finance costs					(4,815)
Profit before tax					237,496

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Year ended 31 December 2013

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licence Business RMB'000	OEM RMB'000	Total RMB'000
Segment assets	**9,610**	**1,787**	**15,509**	**49,548**	**76,454**
Reconciliation:					
Corporate and other unallocated assets					**1,375,238**
Total assets					**1,451,692**
Segment liabilities	**1,100**	**1,100**	**2,500**	**–**	**4,700**
Reconciliation:					
Corporate and other unallocated liabilities					**324,597**
Total liabilities					**329,297**

Year ended 31 December 2012

	Boree Products RMB'000	Baofeng Products RMB'000	Brand Licence Business RMB'000	OEM RMB'000	Total RMB'000
Segment assets					
Reconciliation:	78,396	31,684	14,585	70,474	195,139
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

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) *Revenue from external customers*

	2013 RMB'000	2012 RMB'000
PRC (principal place of operations)	**435,240**	1,169,655
United States of America	**170,070**	161,039
South America	**3,634**	7,096
Europe	**1,747**	3,982
South East Asia	**8,073**	4,509
Other countries	**5,358**	5,263
	624,122	1,351,544

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

(b) *Non-current assets*

	2013 RMB'000	2012 RMB'000
PRC (principal place of operations)	**138,185**	150,561

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

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013 RMB'000	2012 RMB'000
Customer A	**71,721**	N/A[1]

[1] The corresponding revenue did not contributed over 10% of the total sales of the Group.

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2013 RMB'000	2012 RMB'000
Revenue		
Manufacture and sale of goods	**624,122**	1,351,544
Other income and gains		
Interest income	**4,141**	3,834
Sales of scrap material	**450**	–
Rental income	**243**	207
Subsidy income *	**905**	1,268
Others	**47**	10
	5,786	5,319

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

7. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on bank loans repayable within five years	**4,621**	4,815

8. PROFIT BEFORE TAX

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

	2013 RMB'000	2012 RMB'000
Cost of inventories sold *	**437,185**	885,501
Depreciation *	**9,558**	9,812
Amortisation of prepaid land lease payments	**845**	826
Minimum lease payments under operating leases in respect of land and buildings *	**7,367**	7,124
Employee benefit expenses * (including directors' and chief executive's remuneration – note 9):		
Wages and salaries	**70,537**	112,939
Equity-settled share option expense	**392**	5,156
Staff welfare	**2,255**	8,596
Pension scheme contributions **	**8,823**	10,510
	82,007	137,201
Auditors' remuneration	**1,504**	2,297
Impairment losses on trade receivables	**1,162**	–
Write-down of inventories *	**7,805**	–
Loss on disposal of items of property, plant and equipment	**237**	101
Foreign exchange differences, net	**1,446**	137
Research and development costs ***	**2,145**	2,674

* The cost of inventories sold for the year ended 31 December 2013 includes approximately RMB50,861,000 (2012: RMB90,228,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings and write-down of inventories, which are also included in the respective total amounts disclosed above for each of these types of expenses.

** At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

*** The research and development costs are included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the years, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2013 RMB'000	2012 RMB'000
Fees	**805**	820
Other emoluments:		
Salaries, allowances and benefits in kind	**1,444**	2,288
Equity-settled share option expense	**–**	2,952
Pension scheme contributions	**24**	25
	2,273	6,085

The fair value of these share options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated 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:

	2013 RMB'000	2012 RMB'000
Professor Bai Chang Hong	**161**	164
Mr. Lee Keung, Thomson	**161**	164
Ms. An Na	**161**	164
	483	492

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Non-executive directors

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

	2013 RMB'000	2012 RMB'000
Mr. Sze Ching Bor	**161**	164
Mr. Cheung Miu	**161**	164
	322	328

There were no other emoluments payable to the non-executive directors during the year (2012: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(c) Executive directors and chief executive

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2013					
Mr. Zheng Liuhe[1]	**–**	**280**	**–**	**–**	**280**
Mr. Chen Qingwei[2]	**–**	**278**	**–**	**5**	**283**
Mr. Zhang Aiguo	**–**	**380**	**–**	**7**	**387**
Mr. Zheng Jingdong[3]	**–**	**506**	**–**	**12**	**518**
	–	**1,444**	**–**	**24**	**1,468**

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expenses 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

1 Mr. Zheng Liuhe was retired on 10 May 2013.

2 Mr. Chen Qingwei, who resigned on 10 May 2013 was also the chief executive officer of the Group and his emoluments disclosed above include those for services rendered by him as chief executive officer up to the date of resignation.

3 Mr. Zheng Jingdong is appointed as the chief executive officer of the Group on 10 May 2013 and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

There was no arrangement under which a director and chief executive waived or agreed to waive any remuneration during the year (2012: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: four) directors and the chief executive, details of whose remuneration are set out in note 9 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 follow:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**1,542**	792
Equity-settled share option expense	**–**	129
	1,542	921

During the year ended 31 December 2013, the remuneration of the non-director and non-chief executive, highest paid employee fell within the band of RMB500,001 to RMB1,000,000 (2012: RMB500,001 to RMB1,000,000).

11. INCOME TAX EXPENSE

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 (2012: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	2013 RMB'000	2012 RMB'000
Current – PRC		
Charge for the year	**25,305**	78,228
Prior years under provision	**1,674**	2,265
Deferred – PRC (note 28)	**–**	3,071
Total tax charge for the year	**26,979**	83,564

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.

11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of profit or loss and other comprehensive income as belows:

	2013 RMB'000	2012 RMB'000
Profit before tax	**94,857**	237,496
Tax at the applicable tax rates	**24,006**	65,368
Adjustment in respect of current tax of previous periods	**1,674**	2,265
Income not subject to tax	**(2,824)**	(28)
Expenses not deductible for tax	**3,312**	14,089
Tax effect of tax loss not recognised	**811**	–
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	**–**	3,071
Others	**–**	(1,201)
Tax charge at the Group's effective rate	**26,979**	83,564

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 the PRC. 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 the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5% (2012: 5%). In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008, the directors of the Company 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. No deferred tax liability has been provide for the remaining of such profits of approximately RMB534,822,000 (2012: RMB471,415,000) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

At 31 December 2013, there were no significant unrecognised deferred tax liabilities (2012: 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.

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

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 includes a profit of approximately RMB5,520,000 (2012: loss of RMB59,568,000) which has been dealt with in the financial statements of the Company (note 31(b)).

13. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Dividend paid during the year:		
Final – Nil (2011: HK3.0 cents) per ordinary share	–	24,360
Interim – Nil (2012: HK2.5 cents) per ordinary share	–	20,354
	–	44,714

No dividend was proposed for the year ended 31 December 2013, 2012 and since the end of the reporting period.

14. EARNINGS PER SHARE

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 1,014,923,299 (2012: 997,006,308) 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 2013 included the 1,017,020,833 ordinary shares in issue, 3,300,000 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 2012 included 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 convertible notes, and 560,000 repurchased and cancelled shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2013 and 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 years 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.

15. PROPERTY, PLANT AND EQUIPMENT

	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
Cost:							
At 1 January 2013	**72,543**	**24,212**	**7,271**	**6,313**	**40,168**	**841**	**151,348**
Additions	**–**	**213**	**88**	**883**	**1,740**	**563**	**3,487**
Disposals	**–**	**(54)**	**(4,905)**	**(698)**	**–**	**–**	**(5,657)**
At 31 December 2013	**72,543**	**24,371**	**2,454**	**6,498**	**41,908**	**1,404**	**149,178**
Accumulated depreciation:							
At 1 January 2013	**16,580**	**12,970**	**5,092**	**2,284**	**4,418**	**–**	**41,344**
Provided during the year	**3,188**	**1,844**	**696**	**545**	**3,285**	**–**	**9,558**
Disposals	**–**	**(49)**	**(4,074)**	**(611)**	**–**	**–**	**(4,734)**
At 31 December 2013	**19,768**	**14,765**	**1,714**	**2,218**	**7,703**	**–**	**46,168**
Net carrying amount:							
At 31 December 2013	**52,775**	**9,606**	**740**	**4,280**	**34,205**	**1,404**	**103,010**
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

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 lives. 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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's buildings are situated in the PRC and are held under medium term leases.

At 31 December 2013, included in "Buildings" is a property for self-use with a carrying amount of approximately RMB27,300,000 (2012: RMB27,300,000) for which the Group has not yet obtain the building ownership certificate. The Group is in the process of applying the building ownership certificate.

The Group has pledged buildings with a net carrying value of approximately RMB25,475,000 (2012: Nil) to secure general banking facilities granted to the Group.

16. PREPAID LAND LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**36,836**	37,662
Amortisation during the year	**(845)**	(826)
Carrying amount at 31 December	**35,991**	36,836
Current portion included in prepayments, deposits and other receivables	**(816)**	(816)
Non-current portion	**35,175**	36,020

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

The Group has pledged the land use right with a net carrying value of approximately RMB5,223,000 (2012: Nil) to secure general banking facilities granted to the Group.

17. PREPAID RENT

Balance represented prepaid rent for leasing a production plant and office premises in the PRC under an operating lease arrangement for a term of three years.

18. INVESTMENTS IN SUBSIDIARIES

	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**303,658**	303,658
Due from a subsidiary	**566,472**	598,417
	870,130	902,075

18. 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	RMB544,229,000 (2012: RMB524,229,000)	–	100	Manufacture and sale of slippers
Baofeng Modern (HK) Limited	Hong Kong	HK$10,000	100	–	Dormant
Astute Sino Developments Limited ("Astute Sino")**	British Virgin Islands (the "BVI")	US$1	100	–	Dormant

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

** Astute Sino is a wholly-owned subsidiary incorporated in the BVI on 28 November 2013.

During the year ended 31 December 2012, the registered capital of Quanzhou Baofeng had been increased from RMB472,400,000 to RMB672,400,000. During the year ended 31 December 2013, the paid up capital of Quanzhou Baofeng was increased by RMB20,000,000 which wholly contributed by BAOF HK.

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 repayable on demand.

As at 31 December 2012, a dividend receivable of RMB7,276,000 from a subsidiary would be settled upon the approvals for the remittance of dividend declared by the subsidiary from the relevant authorities in the PRC are obtained. The application to the relevant authorities in the PRC was not submitted as at 31 December 2012. The dividend have been fully settled on 21 March 2013.

19. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials and consumables	**9,304**	9,620
Work in progress	**8,942**	12,253
Finished goods	**14,171**	52,557
	32,417	74,430

20. TRADE RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**63,445**	142,582
Less allowance for doubtful debts	**(1,162)**	–
	62,283	142,582

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, net of allowance for doubtful debts as at the end of the reporting period, based on the invoice date, is as follows:

	2013 RMB'000	2012 RMB'000
Within 3 months	**26,243**	142,582
3 to 6 months	**18,386**	–
7 to 12 months	**17,654**	–
	62,283	142,582

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB36,040,000 (2012: Nil) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	**26,243**	142,582
Less than 3 months past due	**18,386**	–
Over 3 months past due	**17,654**	–
	62,283	142,582

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.

20. TRADE RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
1 January	**–**	–
Impairment losses recognised on receivables	**1,162**	–
31 December	**1,162**	–

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of RMB1,162,000 (2012: Nil) which are long outstanding. The Group does not hold any collateral over these balance.

At 31 December 2013, the Group did not pledge its trade receivables to secure the bank borrowings granted to the Group (2012: pledged trade receivables of RMB6,837,000) (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Prepayments	**24,601**	7,714	**499**	4,236
Deposits	**552**	3,146	**–**	–
Other receivables	**12,939**	4,933	**–**	–
	38,092	15,793	**499**	4,236

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.

As at 31 December 2013, included in other receivables were amount advanced to an independent third party amounting to RMB9,000,000. The amount is unsecured, carried interest rate at 20.40% per annum and repayable on 14 January 2014. The amount has been fully settled subsequent to the ended of reporting period.

22. PLEDGED DEPOSITS AND CASH AND BANK BALANCES

Deposits were pledged for bills payable of RMB17,818,000 (2012: RMB232,000) for the year ended 31 December 2013 (note 23).

At 31 December 2013, the cash and bank balances of the Group denominated in RMB amounted to RMB1,171,946,000 (2012: RMB1,006,948,000). The RMB is not freely convertible into other currencies, however, under the PRC 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 earn fixed interest rate at 3.05% per annum (2012: 3.05% to 3.30%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. 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:

	2013 RMB'000	2012 RMB'000
Within 3 months	**24,747**	87,406
Over 3 months	**10,369**	232
	35,116	87,638

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms (2012: two to three months). The bills payable of RMB17,818,000 (2012: RMB232,000) were secured by the pledge of the Group's time deposits amounting to RMB5,546,000 as at 31 December 2013 (2012: RMB70,000).

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Deposits received	**2,260**	2,340	**–**	–
Other payables	**21,425**	27,143	**1,711**	1,733
Accruals	**8,665**	29,728	**365**	282
	32,350	59,211	**2,076**	2,015

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

25. INTEREST-BEARING BANK BORROWINGS

	2013 RMB'000	2012 RMB'000
Current		
Bank loans – unsecured	–	35,000
Bank loans – secured	142,000	5,732
	142,000	40,372
Analysed into:		
Bank loans repayable within one year	142,000	40,372

(a) The bank loans were denominated in RMB (2012: RMB and USD) and bore fixed interest rates (2012: floating interest rates) ranging from:

Year ended 31 December 2013	5.360% – 6.000% per annum
Year ended 31 December 2012	1.430% – 7.890% per annum

(b) At 31 December 2013, the secured bank loans of the Group were secured by a pledge of the Group's buildings (note 15) and land use right (note 16), amounting to RMB25,475,000 and RMB5,223,000 respectively. In addition, the bank loans were guaranteed by two independent third parties.

(c) At 31 December 2012, the secured bank loans of the Group were secured by a pledge of the Group's trade receivables amounting to approximately RMB6,387,000 (note 20).

26. CONVERTIBLE NOTES AND WARRANTS

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

At the same time, Best Mark International Limited (the "Stock Lender"), a substantial shareholder of the Company, entered into a stock borrowing agreement (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 (see "Stock Borrowing" below).

26. CONVERTIBLE NOTES AND WARRANTS (CONTINUED)

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.

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.

26. CONVERTIBLE NOTES AND WARRANTS (CONTINUED)

Convertible Notes (continued)

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 had 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 had 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.

During the year ended 31 December 2013, the Group repaid part of the principal amount of convertible notes of RMB50,560,000 and accrued interest of RMB5,829,000 by cash.

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.

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

26. CONVERTIBLE NOTES AND WARRANTS (CONTINUED)

Warrants (continued)

On 7 February 2013, the Company has entered into a supplemental instrument with the Subscriber 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.

No warrants have been exercised during both year ended 31 December 2012 and 2013.

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 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.

26. 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 had 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 (equivalent to RMB143,470,000) was allocated by the directors of the Company 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

26. CONVERTIBLE NOTES AND WARRANTS (CONTINUED)

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

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	(14,475)	–	(14,475)
Fair value loss charged to profit or loss during the year	38,404	1,254	39,658
Fair value at 31 December 2012	146,133	10,337	156,470
The second to fifth repayment	(56,389)	–	(56,389)
Fair value gain credited to profit or loss during the year	(9,798)	(7,318)	(17,116)
Fair value at 31 December 2013	79,946	3,019	82,965

As at 31 December 2013, the fair values of the Convertible Notes and the Warrants were based on the valuations performed by Asset Appraisal Limited (2012: BMI), an independent firm of professionally qualified valuers and calculated using the binomial model and the inputs into the model were as follows:

	2013	2012
Convertible Notes		
Stock price (HK$)	**0.53**	1.130
Principal amount (HK$'000)	**96,000**	160,000
Coupon rate (%)	**7.000**	7.000
Conversion price (HK$)	**1.310**	1.270
Volatility (%)	**37.187 – 62.790**	18.399 – 41.964
Risk-free rate (% per annum)	**0.101 – 0.258**	0.048 – 0.209
Expected Life (years)	**0.220 – 1.470**	0.220 – 2.470
Expected Dividend Yield (%)	**0**	4.867
Warrants		
Stock price (HK$)	**0.530**	1.130
Exercise price (HK$)	**1.490**	1.490
Volatility (%)	**48.370**	41.964
Risk-free Rate (% per annum)	**1.030**	0.320
Expected Life (years)	**3.975**	4.975
Expected Dividend Yield (%)	**0**	4.867

27. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and repayable on demand.

28. DEFERRED TAX LIABILITY

The movements in deferred tax liability during the year are as follow:

	Group Withholding taxes	
	2013 **RMB'000**	2012 RMB'000
1 January	3,071	–
Deferred tax charged to the income statement during the year (note 11)	–	3,071
31 December	3,071	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 (2012: Nil).

29. SHARE CAPITAL

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

	2013 **RMB'000**	2012 RMB'000
Authorised:		
5,000,000,000 ordinary shares (2012: 5,000,000,000) of US$0.01 each	342,400	342,400
Nil preference share (2012: Nil) of US$0.01 each	–	–
	342,400	342,400
Issued and fully paid:		
1,013,720,833 ordinary shares (2012: 1,017,020,833) of US$0.01 each	67,258	67,466
Nil preference share (2012: Nil) of US$0.01 each	–	–
	67,258	67,466

29. SHARE CAPITAL (CONTINUED)

Ordinary shares

	Number of ordinary US$0.01 each	Nominal value of ordinary shares US$'000	Nominal value of ordinary shares RMB'000
Authorised:			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2012	995,720,000	9,957	66,126
Issuance of new shares on 21 December 2012	21,806,833	218	1,372
Repurchase and cancellation of shares	(506,000)	(5)	(32)
At 31 December 2012 and 1 January 2013	1,017,020,833	10,170	67,466
Repurchase and cancellation of shares	(3,300,000)	(33)	(208)
As at 31 December 2013	1,013,720,833	10,137	67,258

Notes:

(i) 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.

(ii) During the year ended 31 December 2012, 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 30 to the consolidated financial statements.

(iii) During the year ended 31 December 2013, the Company repurchased its 3,300,000 ordinary shares at prices ranging from HK$0.92 to HK$0.93 per share at a total consideration of approximately HK$3,059,000 (equivalent to RMB2,478,000). The 3,300,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK$2,811,000 (equivalent to RMB2,270,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$258,000 (equivalent to RMB208,000) was transferred from retained profits of the Company to the capital redemption reserve as set out in note 30 to the consolidated financial statements.

30. SHARE OPTION SCHEME

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

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

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

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

The exercise price of share options is determinable by the directors of the Company, 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.

30. SHARE OPTION SCHEME (CONTINUED)

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

	2013 Weighted average exercise price	**2013 Number of options**	2012 Weighted average exercise price	2012 Number of options
At 1 January	**1.18**	**34,000,000**	1.18	35,000,000
Forfeited during the year	**1.18**	**(6,100,000)**	1.18	(1,000,000)
Cancelled during the year	**1.18**	**(13,950,000)**	1.18	–
At 31 December	**1.18**	**13,950,000**	1.18	34,000,000

No share options were granted and exercised, and 6,100,000 (2012: 1,000,000) share options were forfeited during the year ended 31 December 2013 due to cessation of employment of the participants.

In addition, 13,950,000 of share options were cancelled due to the Group's failed the performance condition as set out in the Scheme. Details of the performance condition have been set out in Company's announcement dated 30 August 2011.

The outstanding share options as at 31 December 2013 were 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;

– 3,700,000 such share options are vested on 30 August 2013 with an exercise period from 30 August 2013 to 29 August 2016; and

The outstanding share options as at 31 December 2012 were 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.

30. 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:

2013

Number of options	**Exercise price HK$ per share**	**Exercise period**
13,950,000	1.18	30 August 2012 to 29 August 2016

2012

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

The fair value of the share options granted during the year ended 31 December 2011 was HK$12,880,000 (RMB10,549,000) of which the Group recognised a share option expense of RMB392,000 (2012: RMB5,156,000) during the year ended 31 December 2013.

During the year ended 31 December 2013, 6,100,000 and 13,950,000 of forfeited or cancelled share options with fair value of approximately RMB1,087,000 and RMB2,794,000 respectively which previously recognised in share options reserve have been transferred to retained profit.

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 13,950,000 (2012: 34,000,000) share options outstanding under the Scheme, which represented approximately 1.4% (2012: 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 13,950,000 (2012: 34,000,000) additional ordinary shares of the Company and additional share capital of approximately HK$1,085,000 (equivalent to RMB12,300,000) (2012: HK$2,635,000 and equivalent to RMB2,137,000) and share premium of approximately HK$15,375,000 (equivalent to RMB868,000) (2012: HK$37,485,000 and equivalent to RMB30,397,000), before issue expenses.

31. 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 had entered into certain conditional release and discharge agreements, pursuant to which, the new exchangeable note would be duly released and discharged, which had 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 was 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.

(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 3 to the financial statements.

31. 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 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	29	13,103	–	–	–	–	13,103
Shares repurchased	29	(325)	–	32	–	(32)	(325)
Equity-settled share option arrangements	30	–	–	–	5,156	–	5,156
Final 2011 dividend	13	–	–	–	–	(24,360)	(24,360)
Interim 2012 dividend	13	(20,354)	–	–	–	–	(20,354)
Increase in contributed surplus under the Stock Borrowing Arrangement	26	–	12,183	–	–	–	12,183
At 31 December 2012 and 1 January 2013		**353,205**	**395,026**	**316**	**7,259**	**(71,053)**	**684,753**
Profit for the year and total comprehensive gain for the year		–	–	–	–	1,517	1,517
Repurchase and cancellation of shares	29	(2,270)	–	208	–	(208)	(2,270)
Equity-settled share option arrangements	30	–	–	–	(3,489)	3,881	392
At 31 December 2013		**350,935**	**395,026**	**524**	**3,770**	**(65,863)**	**684,392**

The profit of RMB1,517,000 (2012: loss of 70,963,000) for the year ended 31 December 2013 included a management fee of RMB4,005,000 to a subsidiary of the Company (2012: management fee of RMB11,395,000 to a subsidiary of the Company).

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 was accounted for as a deemed contribution in the shareholder's equity. The carrying amount of such contribution from the substantial shareholder was not remeasured in subsequent years.

32. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2012, the Company had 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.

(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 24). During the year ended 31 December 2013, all acquisition of property, plant and equipment was fully paid by cash.

33. 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:

	2013 **RMB'000**	2012 RMB'000
Within one year	**3,641**	4,296
In the second to fifth years, inclusive	**2,374**	6,133
	6,015	10,429

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

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

	2013 RMB'000	2012 RMB'000
Contracted for capital commitment in respect of investment in a subsidiary	**128,171**	148,171
Contracted for commitments in respect of:		
– advertising and consultancy services	**–**	450
– research and development	**333**	1,167
– property, plant and equipment	**–**	450
– product licences	**5,264**	8,451
– manufacturing and distributorship licence	**18,256**	23,256
	23,853	33,774

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

35. RELATED PARTY TRANSACTIONS

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

	2013 RMB'000	2012 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,986**	3,080
Equity-settled share option expense	**–**	3,081
Pension scheme contributions	**24**	25
	3,010	6,186

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profit.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2013 and 2012 are as follows:

Financial assets – loans and receivables

	2013 RMB'000	2012 RMB'000
Trade receivables	**62,283**	142,582
Other receivables (note 21)	**12,939**	4,933
Pledged deposits	**5,546**	70
Cash and bank balances	**1,173,494**	1,035,600
	1,254,262	1,183,185

Financial liabilities

	2013			2012		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	**–**	**35,116**	**35,116**	–	87,638	87,638
Other payables (note 24)	**–**	**21,425**	**21,425**	–	27,143	27,143
Accruals (note 24)	**–**	**8,665**	**8,665**	–	29,728	29,728
Interest-bearing bank borrowings	**–**	**142,000**	**142,000**	–	40,732	40,732
Convertible notes	**79,946**	**–**	**79,946**	146,133	–	146,133
Warrants	**3,019**	**–**	**3,019**	10,337	–	10,337
Amount due to a director	**–**	**33,440**	**33,440**	–	–	–
	82,965	**240,646**	**323,611**	156,470	185,241	341,711

38. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Convertible notes	Liabilities, RMB79,946,000	Level 2	Binomial Model The key inputs are set out in note 26.
Warrants	Liabilities, RMB3,019,000	Level 2	Binomial Model The key inputs are set out in note 26.

There were no transfers between Level 1 and 2 for the year ended 31 December 2013.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Fair value hierarchy

As at 31 December 2013

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Convertible Notes	**–**	**79,946**	**–**	**79,946**
Warrants	**–**	**3,019**	**–**	**3,019**

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments, include trade receivables, other receivables, pledge deposits, cash and bank balances, trade and bills payables, other payables and accruals, interest-bearing bank borrowings, convertible notes, warrants, and amount due to a director. Details of the financial instruments are disclosed in respective notes.

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 policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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
2013		
If US$ strengthens against RMB	5	(2,161)
If US$ weakens against RMB	(5)	2,161
2012		
If US$ strengthens against RMB	5	(6,870)
If US$ weakens against RMB	(5)	6,870

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should needs arise.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 38% (2012: 83%) of the total trade receivables as at 31 December 2013.

The Group has concentration of credit risk as 22% (2012: 8%) and 58% (2012: 24%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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 profit or loss 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
2013	100	1,420
2012	100	407

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, the Group has available unutilised overdraft and short-term bank loan facilities of approximately RMB50,000,000 and RMB6,000,000 respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

2013

	On demand RMB'000	**Less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**	**Carrying Asset RMB'000**
Trade and bills payables	**–**	**35,116**	**–**	**35,116**	**35,116**
Other payables (note 24)	**21,425**	**–**	**–**	**21,425**	**21,425**
Accruals (note 24)	**–**	**8,665**	**–**	**8,665**	**8,665**
Interest-bearing bank borrowings	**–**	**150,520**	**–**	**150,520**	**142,000**
Convertible notes	**–**	**54,195**	**11,407**	**65,602**	**79,946**
Warrants	**–**	**–**	**3,019**	**3,019**	**3,019**
Amount due to director	**33,440**	**–**	**–**	**33,440**	**33,440**
	54,865	**248,496**	**14,426**	**317,787**	**323,611**

2012

	On demand RMB'000	Less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000	Carrying Asset RMB'000
Trade and bills payables	–	87,638	–	87,638	87,638
Other payables (note 24)	27,143	–	–	27,143	27,143
Accruals (note 24)	–	29,728	–	29,728	29,728
Interest-bearing bank borrowings	–	42,049	–	42,049	40,732
Convertible notes	–	38,923	90,821	129,744	146,133
Warrants	–	–	10,337	10,337	10,337
	27,143	198,338	101,158	326,639	341,711

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

41. COMPARATIVE AMOUNTS

Exchange loss of approximately RMB137,000 which had previously been recorded under "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income of 2012, was reclassified to "General and administrative expenses". The comparative figure was reclassified to conform the current year's presentation.