

寶峰時尚

boree

2014
INTERIM REPORT



BAOFENG 1121.HK
www.baofengmodern.com

baofeng 宝峰

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. KWOK Chi Yin (CPA)

AUTHORISED REPRESENTATIVES

Mr. ZHENG Jingdong
Mr. ZHANG Aiguo

STOCK CODE

01121

COMPANY WEBSITE

www.baofengmodern.com

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong.

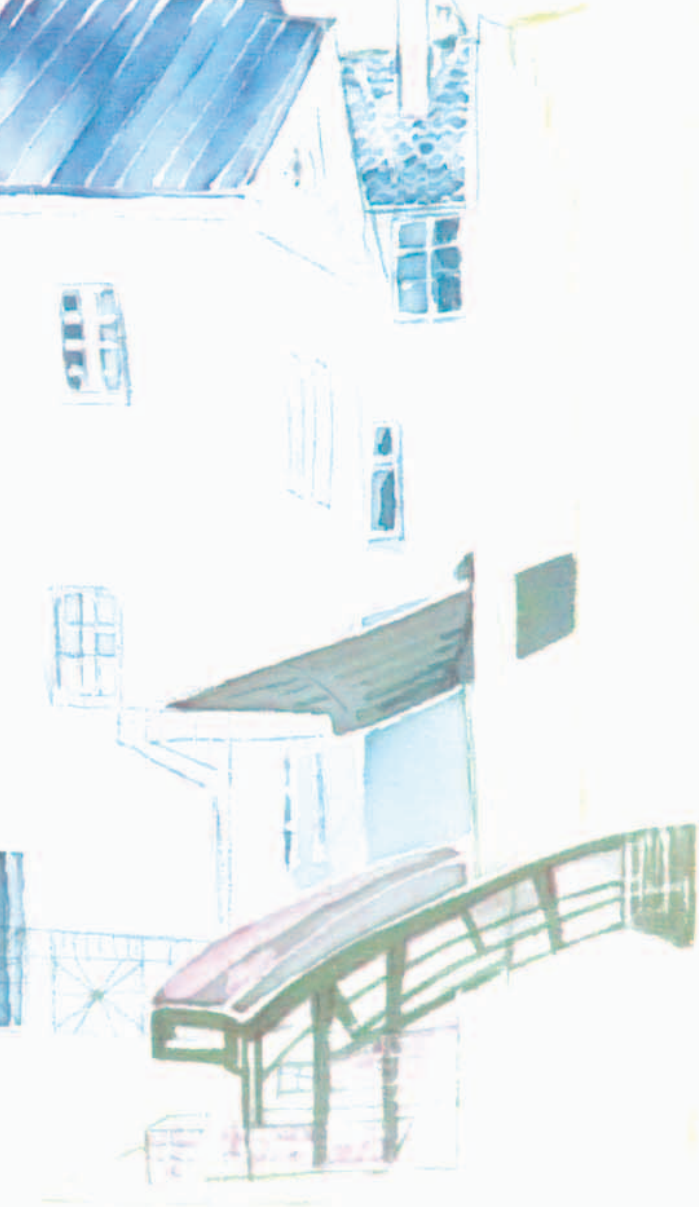
AUDITORS

Pan-China (H.K.) CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong)
China Bank of Construction





CONTENTS

Corporate Information	1
Financial Highlights	3
Management Discussion and Analysis	4-7
Other Information	8-13
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	14
Condensed Consolidated Statement of Financial Position	15
Condensed Consolidated Statement of Changes in Equity	16
Condensed Consolidated Statement of Cash Flows	17
Notes to Condensed Consolidated Financial Statements	18-34

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	Decrease % Change
Revenue (Total)	93,228	561,628	83.4%
Revenue (Boree Products)	3,832	219,118	98.3%
Revenue (Baofeng Products)	3	90,297	99.9%
Revenue (Brand Licensee Business)	14	12,554	99.9%
Revenue (OEM Business)	89,379	239,659	62.7%
Gross Profit	12,992	182,876	92.9%
(Loss)/Profit from Core Operations	(17,165)	73,621	123.3%
(Loss)/Profit for the period	(27,993)	87,313	132.1%
Shareholders' Equity	1,094,671	1,142,855	4.2%

	For the six months ended 30 June	
	2014 (unaudited)	2013 (unaudited)
Profitability data (RMB million)		
Revenue	93.2	561.6
Gross profit	13.0	182.9
Operating (loss)/profit	(23.0)	125.3
(Loss)/profit for the period	(28.0)	87.3
Profitability ratios (%)		
Gross profit margin	13.9	32.6
Operating (loss)/profit margin	(24.7)	22.3
Net (loss)/profit margin	(30.0)	15.5
Operating ratios (as a percentage of revenue) (%)		
Advertising and marketing expenses	0.44	1.7
Assets and liabilities data (RMB million)		
Non-current assets	134.9	143.3
Current assets	1,284.2	1,227.7
Current liabilities	321.4	223.8
Non-current liabilities	3	4
Shareholders' equity	1,094.7	1,142.9
Asset and Working Capital data		
Current asset ratios (%)	90.5%	89.5%
Current ratios (time)	4	5.5
Gearing ratios (%)	22.7%	15.4%

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30 June 2014 (“the period”) the revenue of Baofeng Modern International Holding Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “Baofeng Modern”) amounted to approximately RMB93.2 million, representing an decrease of approximately 83.4% over the corresponding period 2013. The decrease in revenue is due to the fierce competition in the industry and the sales strategy is in the adjustment period. With the labor and raw material cost increased by the reason of rising inflation, the gross profit margin of the Group for the six months ended 30 June 2014 decreased by 18.7% percentage points to 13.9% (2013: 32.6%).

During the reviewing period, the fair value loss of convertible notes and warrants at fair value through profit or loss was recognized in an amount of approximately RMB10.8 million (2013: fair value gain approximately RMB13.7 million). As a result, the net loss of the group for the six months period ended 30 June 2014 amounted to approximately RMB27.9 million (2013: profit RMB87.3 million).

For the period under review, the revenue of the Group decreased by 83.4% to approximately RMB93,228,000 as compared with that of the corresponding period last year. Revenue from Boree and Baofeng branded products decreased by 98.3% to approximately RMB3,832,000 and 99.9% to approximately RMB3,000 respectively as compared with that of the corresponding period last year. The business from the OEM business was decline and the revenue from the OEM business decreased by 62.7% as compared with that of the corresponding period last year. During the period under review, the Brand Licensee business contributed approximately RMB14,000 to the revenue of the Group.

Selling and Distribution Costs

During the period under review, selling and distribution costs decreased by 72.9% to approximately RMB10,546,000 as compared with that of the corresponding period last year (2013: RMB38,857,000), which accounted for 11.3% (2013: 6.9%) of the Group’s revenue. The decrease was consistent with the decrease in Group’s revenue.

FINANCIAL REVIEW

Revenue by Product Category

	Six months ended 30 June		
	2014 RMB’000 (unaudited)	2013 RMB’000 (unaudited)	Decrease %change
Revenue (Total)	93,228	561,628	83.4%
Revenue (Boree Products)	3,832	219,118	98.3%
Revenue (Baofeng Products)	3	90,297	99.9%
Revenue (Brand Licensee business)	14	12,554	99.9%
Revenue (OEM business)	89,379	239,659	62.7%

General and Administrative Expenses

General and administrative expenses recorded a decrease of 42.7% to approximately RMB19,914,000 for the six months ended 30 June 2014 (2013: RMB34,723,000) as compared with that of the corresponding period last year, which accounted for 21.4% (2013: 6.2%) of the Group's revenue. The decrease was mainly due to the decrease in salaries and wages.

Liquidity and Financial Resources

During the period under review, net cash inflow from operating activities of the Group amounted to approximately RMB28.0 million (2013: RMB130.7 million). As at 30 June 2014, cash and bank balances were approximately RMB1,180.4 million, representing a net increase of 0.59% as compared with approximately RMB1,173.5 million as at 31 December 2013. China implemented a series of economic austerity measures in this several years, including adjusting the bank deposit reserve ratio, in order to slow down its overhead economy. In order to maintain a good relation with banks and hope to have a more favourable term of facilities in future, the Group maintained a level of bank borrowings even the Group have substantive cash and bank balances. As at 30 June 2014, the interest-bearing bank borrowings of the Group was RMB153.7 million (31 December 2013: approximately RMB142.0 million). All bank loans were repayable within one year.

Pledge of Assets

As at 30 June 2014, the Group secured its bills payables by the pledge of its time deposits amounting to RMB3,013,000 (31 December 2013: RMB5,546,000).

Contingent Liabilities

As at 30 June 2014 and 31 December 2013, the Group had no material contingent liabilities.



Foreign Exchange Risk

During the period under review, 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.

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group was 22.7% (as at 31 December 2013: 15.4%). Gearing ratio was calculated as total debt divided by the total equity plus total debt. Total debt refers to the total liability minus the sum of tax payable, dividend payable and deferred tax liability.

Human Resources

As of 30 June 2014, the Group had a total of 900 employees (as at 31 December 2013: 1,300 employees).

Use of Net Proceeds from the Share Offering

As at 30 June 2014, the Company had unutilized net proceeds from the IPO in the amount of approximately RMB155 million, representing approximately 39.9% of the total net proceeds from the IPO (the "Unutilised Net Proceeds"). In light of current market conditions of specialty footwear industry in the PRC, the Company believes deploying further as the original intended purpose may no longer meets the Group's imminent business development needs. In order to consistent with interests of the Company and its shareholder, the Company may change the use of the Unutilised Net Proceeds from the original intended purposes to working capital and other general corporate purposes of the Group. If this happen, further announcement will be made by the Company as and when appropriate in compliance with the Listing Rules.

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

The utilisation of the net proceeds as at 30 June 2014 is set out as follows:

Nature	Amount raised	Amount utilised
	RMB'000	RMB'000
To increase production capacity	135,683	79,804
Marketing and advertising expenses	96,917	96,917
To acquire other branded product business	58,150	–
To strengthen design capability	19,383	9,056
To establish flagship shops and showrooms	19,383	3,981
To strengthen the distribution resource planning system	19,383	4,351
General working capital	38,767	38,767
Total:	387,666	232,876

BUSINESS REVIEW AND OUTLOOK

In the past, the Group expected the branded licensee business would be an extra income source of the Group. However, due to increasing piracy in China, the sales footwear of authorized brand "SpongeBob" and "NBA" were affected. The reward for the Group in the branded licensee business was not in the line with the injected cost and the expectation. The Group expected the piracy issue will not be improved in China in short run, the Group planned not to extend the franchise license when expired.

The labour cost and the raw material cost are the main production cost of footwear. Following the high inflation rate in China in the past few years, the labour cost and the raw material cost has increased a lot. The Group inevitable to shift portion of increased cost to the buyer by way of increase the price of its products. In addition, following the appreciation of RMB, the competitive of PRC footwear decreased when compared with those emerging countries, such as India. The OEM business was therefore be affected.



Except for several large size footwear manufacturers in PRC, it is a difficult period for the Group and the footwear manufacturing industry. Since the China's economics boomed in recent years and the disposable money per person surged, the buying habit of Chinese has changed to purchase luxury good and national brand. As our "Baofeng" and "Boree" is a localised brand and therefore the own branded business were inevitable be affected.

To cope with the downturn of the industry and the change of customers buying habit, the Company adjusted its distribution channel by the corporation with those national retail chains instead of single regional distributors. The Group wished the adjustment would lead to the increase of penetration of the Group's products. In addition, the Group planned to increase its expenditure in advertising to promote the brand of "Baofeng" and "Boree" in order to improve its popularity.

Due to the current uncertain economic outlook, we expected disadvantageous operation environment would continuously affect businesses of the Group. Looking forward the future, the Group will be committed to depend on professional management skills and enrich industry experience to continual readjust marketing method and further take a series of cost saving plans for expecting to bring the highest returns for shareholders.

Except for the existing business, the Group also prudently looks for other investment opportunities. In 30 June 2014, the Group entered the Memorandum of Understanding with an independent third party in respect of the possible acquisition of 15% of the entire equity interest in Ideal Stage Limited; terms of the possible acquisition is still being discussed. For more details, please refer to the announcement of the Group dated 30 June 2014.



OTHER INFORMATION

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

At 30 June 2014, the interests and short positions of the director of the Company (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 shares 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 30 June 2014 (i.e. 1,013,720,833 shares).

Save as disclosed above, as at 30 June 2014, 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 15 to the condensed consolidated financial statements.

The following table discloses the outstanding share options under the Share Option Scheme as at 30 June 2014:

Name or Category of participants	Date of grant (Note 1)	Number of options					Outstanding as at 30 June 2014	Exercise period (Note 2)	Exercise price per share (HK\$)
		Outstanding as at 1 January 2014	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period			
Executive Directors									
Zheng Jingdong	30/8/2011	2,750,000	-	-	-	-	2,750,000	A	1.18
Zhang Aiguo	30/8/2011	1,500,000	-	-	-	-	1,500,000	A	1.18
Sub-total		4,250,000	-	-	-	-	4,250,000		
Employees of the Group In aggregate									
	30/8/2011	6,000,000	-	-	-	-	6,000,000	A	1.18
	30/8/2011	3,700,000	-	-	-	(3,700,000)	-	B	1.18
Sub-total		9,700,000	-	-	-	(3,700,000)	6,000,000		
Total		13,950,000	-	-	-	(3,700,000)	10,250,000		

Notes:

- The closing price of the Company's shares immediately before the date of grant on 30 August 2011 was HK\$1.17.
- 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 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.
- Exercise conditions:
 - (i) Provided always that a grantee of share options shall remain as a Director or an employee of the Company or its subsidiaries, at the time of exercise of his or her share options;
 - (ii) Performance target for share options with exercise period A: the Company's Profit (as defined below) for the year ended 31 December 2011 is higher than RMB150,000,000;
 - (iii) Performance target for share options with exercise period B: the Company's Profit for the year ending 31 December 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.
- The number and/or exercise price of the options may be subject to adjustments in the case of rights or bonus issues, or other changes in the Company's share capital.

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

At 30 June 2014, 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	158,683,696(L) 32,000,000 (S)	15.65% 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%

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

Notes:

- (1) Mr. Sze Ching Bor ("Mr. Sze") is deemed to be interested in the shares of the Company (the "Shares") held by Best Mark International Limited ("Best Mark") and Capital Vision International Limited ("Capital Vision"). Best Mark and Capital Vision are wholly owned and controlled by Mr. Sze and are interested in 473,876,157 Shares and 45,159,610 Shares respectively, representing approximately 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 30 June 2014. (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 30 June 2014, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Interim Dividend

The directors do not recommend the payment of any interim dividend for the Period.

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") during the Period contained in Appendix 14 to the Listing Rules, save for the deviation discussed below:

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.

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, Ms. An Na and Mr. Lee Keung did not attend the annual general meeting held on 10 June 2014 due to their business commitments.

Code Provision E.1.2. provides that the chairman 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 10 June 2014.

Model Code for Directors' Securities Transactions

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

Purchase, Redemption or Sales of Listed Securities of the Company

There was no purchased, redemption or sales of listed securities of the Company during the period.

Audit Committee

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises three independent non-executive Directors, namely Mr. Lee Keung, Professor Bai Changhong and Ms. An Na. Mr. Lee Keung is the chairman of the audit committee. The unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the audit committee.

Company Secretary

On 25 April 2014, Mr. Yu Wai Cheong retired and Mr. Kwok Chi Yin was appointed as the company secretary and authorized representative of the Company for the service of process and notices under the Company Ordinance.

On behalf of the Board

ZHENG Jingdong

Chairman

Hong Kong
29 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
REVENUE	4	93,228	561,628
Cost of sales		(80,236)	(378,752)
GROSS PROFIT		12,992	182,876
Other income and gains	4	5,388	2,538
Selling and distribution costs		(10,546)	(38,857)
General and administrative expenses		(19,914)	(34,723)
Other operating expenses		(132)	(180)
Fair value (loss)/gain on financial liabilities at fair value through profit or loss	13	(10,828)	13,692
(LOSS)/PROFIT FROM OPERATIONS		(23,040)	125,346
Finance costs	5	(5,205)	(1,561)
(LOSS)/PROFIT BEFORE TAX	6	(28,245)	123,785
Income tax	7	252	(36,472)
(LOSS)/PROFIT AND TOTAL OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(27,993)	87,313
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		
– Basic (RMB)		(0.03)	0.09
– Diluted (RMB)		N/A	N/A

Condensed Consolidated Statement of Financial Position

30 June 2014

	Note	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		99,805	103,010
Prepaid land lease payments		35,123	35,175
Total non-current assets		134,928	138,185
CURRENT ASSETS			
Inventories		48,970	32,417
Trade receivables	10	26,707	62,283
Prepayments, deposits and other receivables		21,109	38,092
Value added tax recoverable		1,048	1,675
Tax recoverable		2,964	–
Pledged deposits		3,013	5,546
Cash and bank balances		1,180,385	1,173,494
Total current assets		1,284,196	1,313,507
CURRENT LIABILITIES			
Trade and bills payables	11	24,194	35,116
Deposits received, other payables and accruals		29,533	32,350
Interest-bearing bank borrowings	12	153,670	142,000
Amount due to a director	19	47,003	33,440
Tax payable		–	355
Convertible notes	13	66,163	79,946
Warrants	13	818	3,019
Total current liabilities		321,381	326,226
NET CURRENT ASSETS		962,815	987,281
TOTAL ASSETS LESS CURRENT LIABILITIES		1,097,743	1,125,466
NON-CURRENT LIABILITIES			
Deferred tax liabilities		3,072	3,071
NET ASSETS		1,094,671	1,122,395
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	67,258	67,258
Reserves		1,027,413	1,055,137
TOTAL EQUITY		1,094,671	1,122,395

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the Company									
	Reserves									Total equity
	Issued capital	Share premium	Contributed surplus	Statutory surplus fund	Exchange fluctuation reserve	Capital redemption reserve	Share option reserve	Retained profits	Total reserves	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013 (audited)	67,466	353,205	141,376	87,576	155	316	7,259	399,250	989,137	1,056,603
Profit for the period and total other comprehensive income for the period	-	-	-	-	-	-	-	87,313	87,313	87,313
Repurchase and cancellation of shares	(208)	(2,270)	-	-	-	208	-	(208)	(2,270)	(2,478)
Equity-settled option arrangements	-	-	-	-	-	-	1,417	-	1,417	1,417
Transfer upon forfeiture of share options	-	-	-	-	-	-	(4,503)	4,503	-	-
Transfer to statutory surplus fund	-	-	-	9,345	-	-	-	(9,345)	-	-
At 30 June 2013 (unaudited)	67,258	350,935	141,376	96,921	155	524	4,173	481,513	1,075,597	1,142,855

For the six months ended 30 June 2014

	Attributable to owners of the Company									
	Reserves									Total equity
	Issued capital	Share premium	Contributed surplus	Statutory surplus fund	Exchange fluctuation reserve	Capital redemption reserve	Share option reserve	Retained profits	Total reserves	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014 (audited)	67,258	350,935	141,376	95,478	155	524	3,770	462,899	1,055,137	1,122,395
Loss for the period and total other comprehensive expense for the period	-	-	-	-	-	-	-	(27,993)	(27,993)	(27,993)
Equity-settled option arrangements	-	-	-	-	-	-	269	-	269	269
Transfer upon forfeiture of share options	-	-	-	-	-	-	(1,801)	1,801	-	-
At 30 June 2014 (unaudited)	67,258	350,935	141,376	95,478	155	524	2,238	436,707	1,027,413	1,094,671

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
NET CASH FLOWS FROM/(USED IN):		
Operating activities	27,990	130,724
Investing activities	271	1,987
Financing activities	(21,370)	(52,470)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,891	80,241
Cash and cash equivalents at beginning of period	1,173,494	1,035,600
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,180,385	1,115,841
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,180,385	1,115,841

Notes to Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal places of business are located in Huoju Industrial Zone, 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 were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 January 2011.

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

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

2. BASIS OF PREPARATION

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

The Group has adopted the following new IFRSs which are effective for the Group's financial year beginning on 1 January 2014.

- Amendments to IFRS 10, *Consolidated financial statements*, IFRS 12, *Disclosure of interests in other entities and IAS27, Investment entities*
- Amendments to IAS32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC21, *Levies*

These developments have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. OPERATING SEGMENT INFORMATION

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

- (a) the Boree branded products segment manufactures and trades Boree branded slippers (“Boree Products”);
- (b) the Baofeng branded products segment manufactures and trades Baofeng branded slippers (“Baofeng Products”);
- (c) the Brand Licensee Business segment manufactures and trades licensed slippers and footwear products (“Brand Licensee Business”); and
- (d) the Original Equipment Manufacturer (“OEM”) segment produces slippers for branding and resale by others.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted loss before tax.

The adjusted loss before tax is measured consistently with the Group’s loss before tax except that interest income, other unallocated income and gains, fair value gain/(loss) on financial liabilities at fair value through profit or loss, finance costs as well as corporate and unallocated expenses are excluded from such measurement.

Period ended 30 June 2014

	Boree Products RMB’000 (unaudited)	Baofeng Products RMB’000 (unaudited)	Brand Licensee Business RMB’000 (unaudited)	OEM RMB’000 (unaudited)	Total RMB’000 (unaudited)
Segment revenue					
Sales to external customers	3,832	3	14	89,379	93,228
Segment results	(8,242)	(4)	(177)	10,869	2,446
<i>Reconciliation:</i>					
Interest income					2,421
Other unallocated income and gains					2,967
Corporate and other unallocated expenses					(20,046)
Fair value loss on financial liabilities at fair value through profit or loss					(10,828)
Finance costs					(5,205)
Loss before tax					(28,245)

3. OPERATING SEGMENT INFORMATION (continued)

Period ended 30 June 2013

	Boree Products RMB'000 (unaudited)	Baofeng Products RMB'000 (unaudited)	Brand Licensee Business RMB'000 (unaudited)	OEM RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue					
Sales to external customers	219,118	90,297	12,554	239,659	561,628
Segment results	73,047	30,447	(3,458)	43,983	144,019
<i>Reconciliation:</i>					
Interest income					2,090
Other unallocated income and gains					448
Corporate and other unallocated expenses					(34,903)
Fair value gain on financial liabilities at fair value through profit or loss					13,692
Finance costs					(1,561)
Profit before tax					123,785

Geographical Information

Revenue from external customers

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
United States of America	80,717	125,199
PRC (principal place of operations)	7,267	430,355
South America	1,664	2,011
Europe	1,198	1,112
South East Asia	469	884
Other countries	1,913	2,067
	93,228	561,628

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue		
Manufacture and sale of goods	93,228	561,628
Other income and gains		
Interest income	2,421	2,090
Rental income	125	90
Subsidy income	548	304
Others	2,294	54
	5,388	2,538

5. FINANCE COSTS

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Interest on bank loans repayable within five years	5,205	1,561

6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold*	80,236	378,752
Depreciation*	4,941	3,974
Amortisation of prepaid land lease payments	52	413
Minimum lease payments under operating leases in respect of land and buildings*	4,103	3,686
Employee benefit expenses* (including directors' remuneration)		
Wages and salaries	23,748	55,723
Equity-settled share option expense	269	1,417
Staff welfare	875	3,153
Pension scheme contributions	1,222	4,926
	26,114	65,219
Loss on disposal of items of property, plant and equipment	3	161
Research and development costs**	1,037	1,863

* The cost of inventories sold for the Period includes approximately RMB7,704,699 (2013: RMB42,075,000) relating to direct staff costs, depreciation of manufacturing facilities and operating lease payments in respect of land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the Period (2013: 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.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – PRC		
Charge for the period	146	33,536
Under provision in prior years	1,037	1,674
Deferred – PRC	(1,435)	1,262
Total tax (credit)/charge for the period	(252)	36,472

8. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil) to the shareholders of the Company.

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

The calculation of basic (loss)/earnings per share is based on the consolidated loss for the period attributable to owners of the Company of approximately RMB27,993,000 (2013: profit of RMB87,313,000) and the weighted average number of ordinary shares of 1,013,720,833 (2013: the number of ordinary shares of 1,016,145,695) in issue during the Period.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2014 and 30 June 2013 in respect of a dilution as the exercise price of the share options and warrants and the conversion price of the convertible notes of the Company outstanding during the period were higher than the average market price of the Company's ordinary shares for the period and accordingly, there is no dilutive effect on the basic earnings per share.

10. TRADE RECEIVABLES

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

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within 3 months	11,855	26,243
3 to 6 months	4,483	18,386
Over 6 months	10,369	17,654
	26,707	62,283

11. TRADE AND BILLS PAYABLES

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within 3 months	21,716	24,747
3 to 6 months	2,475	10,369
Over 6 months	3	–
	24,194	35,116

The trade and bills payables are non-interest-bearing and are normally settled on two to six months terms. The bills payables of RMB10,042,300 (31 December 2013: RMB17,818,000) were secured by the pledge of the Group's time deposits amounting to RMB3,012,690 as at 30 June 2014 (31 December 2013: RMB5,546,000).

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Current		
Bank loans – unsecured	76,670	–
Bank loans – secured	77,000	142,000
	153,670	142,000
Analysed into:		
Bank loans repayable within one year	153,670	142,000

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

Six months ended 30 June 2014	6% per annum
Year ended 31 December 2013	5.36%-6.000% per annum

13. CONVERTIBLE NOTES AND WARRANTS

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

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

Convertible Notes

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

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

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

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

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

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

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Convertible Notes (continued)

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

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: $120\% \times (\text{number of shares required to be delivered by the Company} - \text{the Shortfall Shares}) \times \text{the volume weighted average price per share as of the date of the relevant convertible notes conversion notice}$.

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

During the period ended 30 June 2014, the Group repaid part of the principal amount of convertible notes and accrued interest by cash.

Warrants

The Warrants gives 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).

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.

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.

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Warrants (continued)

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

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 share to the Subscriber on the Issuance Date with no interest, consideration and collateral. The legal title of the shares will be returned to the Stock Lender on the second business day following the later of i) the date on which the principal and interest of the Convertible Notes have been redeemed and paid in full by the Company or ii) the date on which all Warrants have been exercised or expired.

The stock borrowing arrangement ("Stock Borrowing Arrangement") is considered as a deemed 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 amounts of such contribution from the substantial shareholder is not remeasured in subsequent years.

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

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).

13. CONVERTIBLE NOTES AND WARRANTS (continued)

Stock Borrowing (continued)

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, Warrants and the Stock Borrowing Arrangement

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

	Convertible Notes RMB'000	Warrants RMB'000	Total RMB'000
Fair value at 1 January 2013	146,133	10,337	156,470
Repayment during the year	(56,389)	–	(56,389)
Fair value gain credited to income statement during the year	(9,798)	(7,318)	(17,116)
Fair value at 31 December 2013	79,946	3,019	82,965
Repayment during the period	(26,812)	–	(26,812)
Fair value loss charged/(gain credited) to income statement during the period	13,029	(2,201)	10,828
Fair value at 30 June 2014	66,163	818	66,981

For the Period, the fair value of the Convertible Notes and Warrants were based on the valuation performed by Asset Appraisal Limited, an independent firm of professional qualified valuers, located at Room 901, 9th Floor, On Hong Commercial Building, No. 145 Hennessy Road, Wai Chai, Hong Kong and calculated using the binomial model and the inputs into the model were as follows:

Convertible Notes	
Stock price (HK\$)	0.360
Principal amount (HK\$'000)	64,000
Coupon rate (%)	7.000
Conversion price (HK\$)	1.270
Volatility (%)	25.446–43.947
Risk-free rate (% per annum)	0.084–0.119
Expected Life (years)	0.23–0.98
Expected Dividend Yield (%)	0
Warrants	
Stock price (HK\$)	0.360
Exercise price (HK\$)	1.490
Volatility (%)	46.29
Risk-free Rate (% per annum)	0.940
Expected Life (years)	3.48
Expected Dividend Yield (%)	0

14. SHARE CAPITAL

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

	Number of ordinary shares of US\$0.01 each	Nominal value of ordinary shares RMB'000	Nominal value of ordinary shares RMB'000
Authorised:			
At 1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	5,000,000,000	50,000	342,400
Issued:			
At 1 January 2013	1,017,020,833	10,170	67,466
Repurchase and cancellation of shares	(3,300,000)	(33)	(208)
At 31 December 2013, 1 January 2014 and 30 June 2014	1,013,720,833	10,137	67,258

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.

15. 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.

15. SHARE OPTION SCHEME (continued)

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

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

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

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

	30 June 2014 (unaudited)		31 December 2013 (audited)	
	Weighted average exercise price HK\$ per share	Number of options	Weighted average exercise price HK\$ per share	Number of options
At the beginning of the reporting period/year	1.18	13,950,000	1.18	34,000,000
Forfeited during the reporting period/year	1.18	(3,700,000)	1.18	(6,100,000)
Cancelled during the year	–	–	1.18	(13,950,000)
At the end of the reporting period/year	1.18	10,250,000	1.18	13,950,000

No share options were granted and exercised, and 3,700,000 (31 December 2013: 6,100,000) share options were forfeited during the period ended 30 June 2014.

The outstanding share options as at 30 June 2014 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; and

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; and
- 3,700,000 of such share options were vested on 30 August 2013 with an exercise period from 30 August 2013 to 29 August 2016.

15. 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:

30 June 2014

Number of options	Exercise price HK\$ per share	Exercise period
10,250,000	1.18	30 August 2012 to 29 August 2016

31 December 2013

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

The fair value of the share options granted during the year ended 31 December 2011 was HK\$12,880,000 (RMB10,549,000) of HK\$0.37 each (RMB0.30 each) of which the Group recognised a share option expense of RMB269,000 during the period ended 30 June 2014 (31 December 2013: RMB392,000).

During the year ended 30 June 2014, 3,700,000 of forfeited share options with fair value of approximately 1,800,703 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 10,250,000 (2013: 13,950,000) share options outstanding under the Scheme, which represented approximately 1.0% (2013: 1.4%) of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,250,000 additional ordinary shares of the Company and additional share capital of HK\$794,000 (equivalent to RMB636,000) and share premium of HK\$11,301,000 (equivalent to RMB9,052,000), before issue expenses.

16. 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 30 June 2014	Fair value hierarchy	Valuation technique(s) and key input(s)
Convertible notes	Liabilities, RMB66,613,000	Level 2	Binomial Model The key inputs are set out in note 13.
Warrants	Liabilities, RMB818,000	Level 2	Binomial Model The key inputs are set out in note 13.

There were no transfers between Level 1 and 2 for the period ended 30 June 2014.

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.

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the group 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.

Liabilities measured at fair value:

As at 30 June 2014

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Convertible Notes	–	66,163	–	66,163
Warrants	–	818	–	818

As at 31 December 2013

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Convertible Notes	–	79,946	–	79,946
Warrants	–	3,019	–	3,019

17. OPERATING LEASE ARRANGEMENTS

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

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	3,024	3,641
In the second to fifth years, inclusive	–	2,374
	3,024	6,015

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments at the end of the reporting period:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Contracted for capital commitment in respect of investment in Quanzhou Baofeng	128,171	128,171
Contracted for commitments in respect of:		
– research and development	–	333
– property, plant and equipment	5,165	–
– products licences	–	5,264
– manufacturing and distributorship license	1,837	18,256
	7,002	23,853

19. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	680	867
Equity-settled share option expense	–	549
Pension scheme contributions	8	16
	688	1,432

	30 June	31 December
	2014 RMB'000 (unaudited)	2013 RMB'000 (audited)
Amount due to a director	47,003	33,440

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

20. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 29 August 2014.