BaWang International (Group) Holding Limited
霸 王 國 際（集 團）控 股 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01338)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") would like to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2010 together with comparative figures for the corresponding period in 2009.

* *for identification purpose only*

Consolidated income statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	4	**1,475,355**	1,756,001
Cost of sales		**(564,017)**	(590,355)
Gross profit		**911,338**	1,165,646
Other revenue		**1,810**	—
Other net losses		**(1,399)**	(294)
Selling and distribution costs		**(941,811)**	(637,344)
Administrative expenses		**(101,511)**	(75,756)
(Loss)/profit from operations		**(131,573)**	452,252
Finance income	5(a)	**13,043**	2,322
Finance costs	5(a)	**(15,601)**	(4,771)
Net finance cost		**(2,558)**	(2,449)
(Loss)/profit before taxation	5	**(134,131)**	449,803
Income tax credit/(expense)	6(a)	**16,160**	(85,659)
(Loss)/profit for the year attributable to the equity shareholders of the Company		**(117,971)**	364,144
(Loss)/earnings per share (RMB yuan)			
Basic	8(a)	**(0.04)**	0.15
Diluted	8(b)	**(0.04)**	0.15

Details of dividends payable to equity shareholders of the Company are set out in Note 7.

Consolidated statement of comprehensive income

For the year ended 31 December 2010
(Expressed in Renminbi)

	2010	2009
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to the equity shareholders of the Company	**(117,971)**	364,144
Other comprehensive income for the year		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(18,497)**	(103)
Total comprehensive income for the year attributable to the equity shareholders of the Company	**(136,468)**	364,041

Consolidated balance sheet

At 31 December 2010
(Expressed in Renminbi)

	Note	**2010**	2009
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**60,136**	39,330
Prepaid advertising fee		**2,437**	6,081
Deferred tax assets		**27,089**	—
		89,662	45,411
Current assets			
Inventories		**84,216**	60,384
Trade and other receivables	9	**440,060**	534,009
Pledged deposits		**220,000**	162,012
Cash and cash equivalents		**1,186,544**	1,742,523
Income tax recoverable		**12,892**	—
		1,943,712	2,498,928
Current liabilities			
Trade and other payables	10	**228,793**	293,839
Bank loans and overdrafts		**209,787**	158,490
Amounts due to related parties		**3,363**	5,896
Income tax payable		**—**	31,820
		441,943	490,045
Net current assets		**1,501,769**	2,008,883
Total assets less current liabilities		**1,591,431**	2,054,294

	Note	2010	2009
		RMB'000	*RMB'000*
Non-current liabilities			
Deferred tax liabilities		**2,031**	20,062
Net assets		**1,589,400**	2,034,232
Capital and reserves			
Share capital		**256,380**	256,134
Reserves		**1,333,020**	1,778,098
Total equity		**1,589,400**	2,034,232

Notes:

1. Reporting entity

BaWang International (Group) Holding Limited (the "Company") was incorporated in the Cayman Islands on 11 December 2007 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as "Group") and are expressed in Renminbi unless otherwise indicated. The Group is primarily engaged in the manufacturing and sales of household and personal care products. The Group is also engaged in the sales of herbal tea products since June 2010.

2. Statement of compliance

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2010 but are extracted from those audited consolidated financial statements.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

- Improvements to IFRSs (2009)

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

The "Improvements to IFRSs (2009)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments.

3. Segment reporting

The Group manages its business by a mixture of both product lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

- Hair-care products (mainland China and overseas)

- Skin-care and other household and personal care products (mainland China and overseas)

- Herbal tea products (mainland China)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of herbal tea products, assistance provided by one segment to another, including sharing assets, is not measured.

The measure used for reporting segment profit is "adjusted (loss)/profit from operations". To arrive at adjusted (loss)/profit from operations, the Group's (loss)/profit is further adjusted for the items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration expenses. The Group's senior executive management is provided with segment information concerning segment revenue and segment (loss)/profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out as below:

	Hair-care products		**Skin-care and other household and personal care products**		**Herbal tea products**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue								
Revenue from external customers	**1,328,079**	1,669,025	**77,519**	86,976	**69,757**	—	**1,475,355**	1,756,001
Inter-segment revenue	**199**	—	**—**	—	**1,214**	—	**1,413**	—
	1,328,278	1,669,025	**77,519**	86,976	**70,971**	—	**1,476,768**	1,756,001
Reportable segment (loss)/profit								
Adjusted (loss)/profit from operations	**(39,888)**	473,847	**(5,645)**	8,498	**(65,084)**	—	**(110,617)**	482,345

(b) Reconciliations of reportable segment revenue and results

Revenue

	2010	2009
	RMB'000	*RMB'000*
Reportable segment revenue	**1,476,768**	1,756,001
Elimination of inter-segment revenue	**(1,413)**	—
Consolidated turnover	**1,475,355**	1,756,001

Results

	2010	2009
	RMB'000	*RMB'000*
Reportable segment (loss)/profit	**(110,617)**	482,345
Elimination of inter-segment profits	**(130)**	—
Other revenue	**1,810**	—
Other net losses	**(1,399)**	(294)
Unallocated head office and corporate expenses	**(21,237)**	(29,799)
Finance income	**13,043**	2,322
Finance costs	**(15,601)**	(4,771)
Consolidated (loss)/profit before taxation	**(134,131)**	449,803

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets and non-current portion of prepaid advertising fee ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of the non-current portion of prepaid advertising fee.

	Revenues from external customers		**Specified non-current assets**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**1,413,695**	1,677,225	**58,957**	40,470
Hong Kong	**41,146**	49,197	**3,616**	4,941
Singapore	**13,325**	17,872	**—**	—
Malaysia	**4,461**	5,221	**—**	—
Myanmar	**1,119**	320	**—**	—
Brunei	**706**	—	**—**	—
The United Arab Emirates	**903**	—	**—**	—
Thailand	**—**	6,166	**—**	—
	61,660	78,776	**3,616**	4,941
	1,475,355	1,756,001	**62,573**	45,411

4. Turnover

The Group is principally engaged in the manufacturing and sales of the household and personal care products including hair-care and skin-care products. The Group is also engaged in the sales of herbal tea products since June 2010.

Turnover represents the sales value of goods supplied to customers. Turnover excludes value added taxes and other sales taxes and is after deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the years is as follows:

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Hair-care products	**1,328,079**	1,669,025
Skin-care and other household and personal care products	**77,519**	86,976
Herbal tea products	**69,757**	—
	1,475,355	1,756,001

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenues.

5. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance income and costs

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**(13,043)**	(2,322)
Finance costs		
Interest on bank borrowings	**5,115**	2,231
Bank charges on bank borrowings	**2,016**	—
Net foreign exchange losses	**8,470**	2,540
Subtotal	**15,601**	4,771
Net finance costs	**2,558**	2,449

(b) Staff costs*

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**129,700**	84,027
Equity-settled share-based payment expenses	**8,413**	6,435
Contributions to defined contribution retirement plan	**5,599**	4,627
	143,712	95,089

Staff costs included directors' remuneration.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group also maintains a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on the relevant income of the relevant employee and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) Other items

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Depreciation*	**8,252**	6,721
Auditors' remuneration	**1,250**	4,378
Cost of inventories*	**564,017**	590,355
Impairment loss for bad and doubtful debts (Note 9(b))	**149**	1,549

* Cost of inventories includes RMB40,260,000 (2009: RMB31,326,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6. Income tax (credit)/expense

(a) Income tax (credit)/expense in the consolidated income statement represents:

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the year	**9,660**	63,731
Over-provision in respect of prior years	**(2,476)**	—
	7,184	63,731
Current tax — Hong Kong income tax		
Provision for the year	**3,745**	1,866
Deferred tax — PRC income tax		
Origination of temporary differences	**(27,089)**	20,062
Income tax (credit)/expense	**(16,160)**	85,659

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) Bawang (Guangzhou) Co., Ltd. ("**Bawang Guangzhou**"), a PRC subsidiary of the Group, is subject to a unified income tax rate of 25% with effect from 1 January 2008.

In accordance with the Implementation Rules and grandfathering arrangements of the Corporate Income Tax Law of the PRC ("**CIT Law**") which started to take effect on 1 January 2008, Bawang Guangzhou continued to be eligible for the "two-year exemption and three-year 50% reduction" tax holiday from 2006 to 2010.

(iii) Bawang (China) Beverage Co., Ltd. ("**Bawang Beverage**"), a PRC subsidiary of the Group, was newly established in Guangzhou in 2010. The applicable income tax rate of Bawang Beverage is 25%.

(iv) Pursuant to the Implementation Rules of the CIT Law, overseas investors to foreign investment companies ("**FIE**") shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which is the beneficiary owner holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group did not make provision of withholding income tax for the year ended 31 December 2010 since the PRC subsidiaries, both Bawang Guangzhou and Bawang Beverage, incurred losses in the current year.

(v) The provision for Hong Kong Profits Tax was made by Hong Kong Bawang International Trading Limited ("**Bawang Trading**") and was calculated at 16.5% of the estimated assessable profits for the year (2009: 16.5%).

(b) Reconciliation between income tax (credit)/expense and accounting (loss)/profit at applicable tax rates:

	For the year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(134,131)**	449,803
Income tax on (loss)/profit before tax, calculated at the rates applicable to the PRC operations (i.e. 25%)	**(33,533)**	112,451
Effect of withholding income tax (Note 6(a)(iv))	**—**	21,193
Effect of tax rate differential (i)	**22,167**	10,550
Effect on deemed taxable income (ii)	**984**	1,377
Effect of non-deductible expenses	**6,358**	2,688
Effect of tax concessions (iii)	**(9,660)**	(62,600)
Bonus deduction of R&D expenses for 2009 (iv)	**(2,689)**	—
Under provision in prior year	**213**	—
Income tax (credit)/expense	**(16,160)**	85,659

(i) The effect of tax rate differential mainly represented the effect of the difference in tax rates among the Company and its subsidiaries and the tax effect arising from difference between the tax rate of 25% being applied in the computation of expected income tax and the rate for recognising the deferred tax.

(ii) Effect on deemed taxable income represents deemed sales income in respect of promotional goods provided to customers at nil consideration, which is calculated in accordance with the CIT law of the PRC, applicable from 1 January 2008.

(iii) Effect of tax concessions represents the difference between standard income tax rate and preferential income tax rate enjoyed by the Group as set out in Note 6(a)(ii).

(iv) According to Tax Notice on Provisional Administrative Measures governing Pre-CIT Deduction of R&D Expenses (Guoshuifa [2008] No. 116) issued by the State Administration of Taxation, effective from 1 January 2008, R&D expenses, which are not capitalised, are qualified for bonus deduction for income tax purpose, i.e. an additional 50% of such expenses could be deemed as deductible expenses. The approval of the 50% additional deduction of R&D expenses for the year ended 31 December 2009 was obtained in 2010.

7. Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010	2009
	RMB'000	*RMB'000*
Interim and special dividends declared and paid of HK4 cents per ordinary share (2009: nil)	**101,600**	—
Final and special dividends proposed, approved and paid after the end of the reporting period (2009: HK8.5 cents per ordinary share)	**—**	216,108
	101,600	216,108

The final and special dividends proposed, approved and paid after the balance sheet date have not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010	2009
	RMB'000	*RMB'000*
Final and special dividends in respect of the previous financial year, approved and paid during the year, of HK4.25 cents per ordinary share (2009: RMB0.12 per ordinary share)	**108,054**	249,680
Special dividends in respect of the previous financial year, approved and paid during the year, of HK4.25 cents per ordinary share (2009: nil)	**108,054**	—
	216,108	249,680

8. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB117,971,000 (2009 profit: RMB364,144,000) and the weighted average of 2,906,389,810 ordinary shares (2009: 2,497,753,425 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	At 31 December	
	2010	2009
Issued ordinary shares at 1 January	**2,905,000,000**	1
Effect of repurchase of existing ordinary shares	**—**	(1)
Effect of increase in ordinary shares	**—**	10,000
Effect of capitalisation issue	**—**	2,099,990,000
Effect of shares issued upon initial public offering	**—**	397,753,425
Effect of share option exercised	**1,389,810**	—
Weighted average number of ordinary shares at 31 December	**2,906,389,810**	2,497,753,425

(b) Diluted (loss)/earnings per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB117,971,000 (2009 profit: RMB364,144,000) and the weighted average number of ordinary shares (diluted) of 2,914,699,696 shares (2009: 2,500,976,782).

Weighted average number of ordinary shares (diluted) is calculated as:

	31 December 2010	31 December 2009
Weighted average number of ordinary shares	**2,906,389,810**	2,497,753,425
Effect of deemed issue of shares under the Company's share option scheme	**8,309,886**	3,223,357
Weighted average number of ordinary shares (diluted) at 31 December	**2,914,699,696**	2,500,976,782

9. Trade and other receivables

	The Group At 31 December	
	2010	2009
	RMB'000	*RMB'000*
Trade debtors and bills receivable	**314,481**	376,815
Less: allowance for doubtful debts (Note 9(b))	**(1,792)**	(1,650)
	312,689	375,165
Prepayment for purchase of raw materials	**2,656**	2,017
Prepayment for purchase of fixed assets	**18,478**	2,803
Prepaid advertising fee	**87,021**	150,622
Other receivables	**19,216**	3,402
	440,060	534,009

The credit terms granted by the Group to customers generally range from 30 days to 180 days. Generally, all of the trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

Included in trade and other receivables of the Group are trade debtors of the Group and bills receivable (net of allowance for doubtful debts) with the following ageing analysis by due date as of the balance sheet date:

	The Group At 31 December	
	2010	2009
	RMB'000	*RMB'000*
Current	**278,427**	342,332
Less than 3 months past due	**29,798**	31,348
More than 3 months but less than 6 months past due	**5,130**	1,911
More than 6 months but less than 12 months past due	**553**	793
More than 12 months past due	**573**	431
	314,481	376,815
Less: impairment loss for doubtful debts	**(1,792)**	(1,650)
	312,689	375,165

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable of the Group are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including mainly the specific losses, is as follows:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**1,650**	101
Impairment loss recognised	**149**	1,549
Uncollectible amounts written off	**(7)**	—
At 31 December	**1,792**	1,650

At 31 December 2010, the Group's trade debtors and bills receivable of RMB985,000 (2009: RMB1,650,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that full amount of these receivables cannot be recovered. Consequently full provisions for these doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**277,710**	341,370
Less than 3 months past due	**29,721**	31,260
More than 3 months but less than 6 months past due	**5,117**	1,906
More than 6 months but less than 12 months past due	**141**	598
More than 12 months but less than 24 months past due	**—**	31
	34,979	33,795
	312,689	375,165

Receivables that were neither past due nor impaired relate to a wide range of 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 track record with the Group. Based on past experience, management believes that no impairment allowance 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. The Group does not hold any collateral over these balances.

10. Trade and other payables

	The Group At 31 December	
	2010	2009
	RMB'000	*RMB'000*
Trade payables	**58,673**	115,330
Receipts in advance	**57,460**	30,790
Promotion fee payable	**33,092**	49,812
Accrued payroll	**18,525**	11,977
Derivative financial instruments	**3,757**	—
Other payables and accruals	**57,286**	85,930
	228,793	293,839

The credit period granted by the suppliers ranges from 30 days to 90 days.

Included in trade and other payables are trade creditors with the following ageing analysis of the balance sheet date:

	The Group At 31 December	
	2010	2009
	RMB'000	*RMB'000*
Due within 1 month or on demand	**40,390**	84,662
Due after 1 month but within 3 months	**18,283**	30,668
	58,673	115,330

11. Capital commitments

Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010	2009
	RMB'000	*RMB'000*
Contracted for	**27,923**	3,503

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Directors report that the total revenue of the Group for 2010 was RMB1,475.4 million, representing a decrease of 16.0% as compared to 2009. The Group has recorded a loss of RMB118.0 million for 2010 as compared to the profit attributable to the shareholders of RMB364.1 million in 2009. Please refer to the Financial Review section of this annual report for details of the operating performance of the Group.

The year of 2010 was very challenging for the Group. During the first half of the year, the Group was heavily engaged in the successful brand building for four newly launched products Consequently, our revenue increased by 36.7% as compared to the same period last year. Into the second half of 2010, the Group was in effect running six branded product lines in three HPC categories as well as making exceptional efforts and highly efficient and effective crisis handling measures to solve all the negative impacts arising from the inaccurate media articles and/or news reports against the Group.

In April 2010, the Group rolled out its first Chinese herbal beverage product series "Bawang Herbal Drink (霸王涼茶)" with Donnie Yen (甄子丹) as its brand ambassador. The products have been available for sales since June 2010. As of 31 December 2010, the distribution network comprised around 212 distributors, covering 21 provinces and four municipalities.

During the year, the Group realized that because of the intense competition in the HPC products in the PRC over the past few years, some of the low-cost branded HPC products were fading out from the market. As a result, there was an opportunity for the Group to tap into this market segment. The Group then started working on the repositioning and enhancement of "Litao (麗濤)" as natural-based shampoo and shower gel products series. In October 2010, the Group successfully rolled out the enhanced product series, "Scent with Smoothing (香香柔順)". In order to effectively promote the brand image, the popular young singing group "S.H.E." has been appointed as its brand ambassador. As of 31 December 2010, the distribution network comprised approximately 349 distributors, covering 26 provinces and three municipalities. The successful launch of Litao (麗濤) enhanced products series has signified a successful extension of the Group's shampoo business into the mid-low end segment in PRC market.

In relation to Chinese herbal anti-dandruff shampoo series, Royal Wind (追風系列), the Group continued to expand its sales and distribution network in 2010. As of 31 December 2010, the distribution network comprised approximately 482 distributors and 41 KA retailers, covering 27 provinces and four municipalities. Further, the products were successfully launched in Hong Kong and Singapore in 2009 and 2010 respectively.

In relation to Chinese herbal skincare products series, Herborn (本草堂系列), this series of products aims at white-collar females aged between 25 and 45 who have high purchasing power and pursue a healthy and natural lifestyle. As of 31 December 2010, the Group has successfully set up sales and distribution networks comprised approximately 92 distributors and 15 retailers covering 27 provinces and four municipalities with 84 counters in department stores and/or hypermarkets and 761 counters in cosmetics specialty shops. In addition, the products have exclusively been sold at approximately 270 Mannings Stores in Hong Kong since November 2010.

The internationally renowned celebrity Ms Faye Wong (王菲) has continued to be the brand ambassador and to help us promote the images of both Royal Wind (追風) and Herborn (本草堂) brands.

In the aftermath of the "dioxane incident" as disclosed in the announcement of the Company dated 14 July 2010, the brand image of Bawang brand was adversely affected. The sales of Bawang branded shampoos for the second half of 2010 significantly declined by 63.2% as compared to the same period of 2009. Through the swift responses of the Company, we have been able to maintain the confidence of our distributors and retailers. As of 31 December 2010, the distribution network for Bawang branded products comprises approximately 576 distributors and 43 KA retailers, covering all 27 provinces and four municipalities in the PRC. The products have also been launched in overseas countries such as, Hong Kong, Macau, Singapore, Myanmar, Thailand, Malaysia, Brunei, and United Arab Emirates.

In order to lift the corporate image, to restore the consumer's confidence in the Group's products and to develop immunity for the Group to defend against vicious attacks in future, the Company has taken a series of marketing and promotional initiatives, viz.:

In July 2010, five herbal tea formulas and the associated terminology have been approved as National Intangible Cultural Heritage by the State Council of the People's Republic of China.

In August 2010, the Group was appointed as an exclusive sponsor of skincare products to the Miss World Pageant China. Apart from providing our Herborn Chinese herbal skincare products (本草堂系列) for the use of the contestants, we also conducted a series of skincare seminars for the contestants to understand the concepts and benefits of traditional Chinese medicine.

In early September 2010, the Group participated in a traditional Chinese medicine exhibition (中醫中藥中國行) in Beijing, which was organized by 23 relevant organizations and government departments in the PRC. The theme of exhibition was to publicize the practice of Chinese herbal doctors and the applications and benefits of traditional Chinese medicine.

In September 2010, our Royal Wind (追風系列) branded products was the title sponsor to a student contest known as "Royal Wind Universiade Star", which elected student ambassadors for the Universiade 2011 Shenzhen. During the selection process, the contestant students were drawn from university campuses all over the mainland China. These young finalists helped the Group to enhance the understanding of the general public in the application of traditional Chinese medicine.

Furthermore, in September 2010, the family of our chairman, Mr. Chen Qiyuan, was recognized as "Renowned Traditional Chinese Herbal Medicine Family (中藥世家) by the Southern China Steering Committee for Protection of Intangible Cultural Heritage. In addition, a total of eight Chinese herbal formula comprising four herbal haircare formulas and four herbal skincare formula were admitted to the list of protection. The intellectual property rights of these formulas are officially protected. In November of the same year, our Chairman, Mr. Chen Qiyuan was recognised as the Representative Inheritor of Chinese Herbal Tea Culture by the Guangdong Provincial Bureau of Culture.

In October 2010, the Group was selected as exclusive provider of Bawang branded shampoos and some of our HPC products to the Guangzhou 2010 Asian Games (“**the Asian Games**”) for the use of the participating athletes and guests in the game villages. The selection criteria laid by the organizing committee of the Asian Games were very stringent. At the end of the Asian Games, the Group was awarded a certificate for outstanding achievement in product safety by the organizing committee. This award casts a strong and convincing vote on the good quality of Bawang branded products.

In November 2010, to signify the award of exclusive supply contract for provision of Bawang products to the Asian Games, the Company invited five Chinese sports champions in various fields to say cheerio in a series of cheerio TV advertisements for publicizing the Asian Games with the main theme “Witnessing the Quality of Bawang Products whilst Enjoying the Thrilling Passions of the Asian Games” (“見證霸王品質，共享亞運激情”). The promotional posters featuring the five sports champions were displayed in the points of sales all over the PRC. The Directors believe that the TV commercials at CCTV and the promotional posters on a nationwide basis would help the Company to spread the positive message to all tiers of cities in the PRC and thereby enhance the corporate and brand image.

In terms of the recognition gained by the Group, the Guangdong Provincial Bureau of New Hi-Tech Products has recently awarded Certificate of New Hi-tech Product to accredit the following three products series of our Group:

1. Bawang Anti-Hair Fall Shampoo (霸王防脱系列洗髮液)

2. Bawang Hair Blackening Shampoo (霸王烏髮系列洗髮水)

3. Royal Wind Anti-Dandruff Shampoo (追風去屑系列洗髮水)

In May 2010, a research development in the extraction of contents from a Chinese herb called polygonum (何首烏), was admitted in the National Torch Program of China (國家火炬計劃).

In June 2010, the Group has jointly been approved by the Guangzhou Provincial Bureau of Science & Technology, the Development & Reform Commission, and the Economic & Trade Commission of Guangzhou Municipality to set up a research and development centre for the key projects in relation to the Chinese herbal consumer products.

These achievements serve as recognition of the Group’s strong capability in the research, development and industrialization of Chinese herbal medicine.

We are in the process of applying for the registration of a number of patents relating to researches about Chinese herbs and hair blackening, the successful registration of which will be a further testament to the recognition and breakthrough in our research and development of the Company.

Recent Events

We are of the view that the contents in the relevant magazine article published by Next Magazine on 14 July 2010 are defamatory of the Group and/or amount to malicious falsehood. Therefore, we have commenced legal proceedings in the High Court of Hong Kong against Next Magazine seeking, inter alia, damages and an injunction to restrain Next Magazine from publishing such contents or similar contents. The legal proceedings against Next Magazine are still continuing.

Financial Review

Revenue

During the year under review, the Group's revenue amounted to RMB1,475.4 million, representing a decrease of 16.0% as compared to RMB1,756.0 million in 2009. The sales decline in 2010 was principally attributable to the substantial decline in the sales of the Group's shampoo products in the second half of 2010 as a result of and in connection with the "dioxane incident" as disclosed in the announcement of the Company dated 14 July 2010.

The Group's core brand, Bawang (霸王), generated RMB993.8 million in revenue, which accounted for 67.4% of the Group's total revenue for 2010, and represented a decrease of 29.6% as compared to 2009. The sales of Bawang branded products in the second half of 2010 significantly decreased by 64.0% to RMB282.0 million as compared to the same period in 2009.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind (追風), recorded a revenue of RMB333.4 million in 2010, which accounted for approximately 22.6% of the Group's total revenue for 2010, and represented an increase of 13.9% as compared to 2009. As Royal Wind (追風) was launched in May 2009, the total revenue generated for 2009 and 2010 by this branded products may not be directly comparable.

The first branded herbal drink of the Group, "Bawang Herbal Tea (霸王涼茶)" recorded a revenue of RMB69.8 million since it was launched in April 2010, representing 4.7% of the Group's total revenue for 2010.

The natural-based branded shampoo and shower gel products series, "Litao (麗濤)", was repositioned and rolled out in October 2010. This branded series generated RMB51.1 million in revenue, which accounted for approximately 3.5% of the Group's total revenue for 2010, and represented an increase of 15.5% as compared to 2009. As the new product line of Litao (麗濤) was rolled out in October 2010, the total revenue generated for 2009 and 2010 by this branded products may not be directly comparable.

Smerry (雪美人) generated a total revenue of RMB5.5 million, which accounted for approximately 0.4% of the Group's total revenue for 2010.

We generally sell our products through extensive distribution and retail networks. During the period under review, sales to our distributors and retailers represented approximately 81.3% and approximately 18.7% of the Group's total revenue respectively.

We launched our products in Hong Kong, Macao, Singapore, Thailand, Myanmar, Malaysia, Brunei, and United Arab Emirates in 2010. The sales to these markets outside the PRC accounted for 4.2% of our total revenue for 2010.

Cost of Sales

Cost of sales for 2010 amounted to RMB564.0 million, representing a decrease of 4.5% as compared to RMB590.4 million for 2009. Such decline was mainly due to the decrease in sales of shampoo products, but partially offset by the increase in sales of two branded products, namely Royal Wind (追風) and Litao (麗濤), and the sales of the newly launched Bawang Herbal Tea (霸王涼茶) branded products.

Gross Profit

During the year under review, the Group's gross profit decreased to RMB911.3 million, representing a decrease of 21.8% as compared to RMB1,165.6 million for 2009. The gross profit margin decreased from 66.4% for 2009 to 61.8% for 2010. Such decline was mainly due to the change in product mix and the increase in the proportion of the cost of raw materials over the total revenue.

Selling and Distribution Costs

Selling and distribution costs increased to RMB941.8 million for 2010, representing an increase of 47.8% as compared to that for 2009. Such increase is due to the increased cost for the launch of our new brand product, namely Bawang Herbal Tea (霸王涼茶) in April 2010 and Litao (麗濤) in October 2010, and the additional costs for sales and marketing promotional campaigns in relation to the restoration of consumers' confidence in the Group's products after occurrence of the "dioxane incident".

Administrative Expenses

Administrative expenses for 2010 amounted to approximately RMB101.5 million, representing an increase of approximately 34.0% as compared with approximately RMB75.8 million in the same period in 2009. Such increase was mainly due to non-capitalizable research and development expenditures, administrative staff salaries and other benefits including share-based payments.

Loss from Operations

The Group recorded an operating loss of RMB131.6 million for 2010, as compared to the operating profit of RMB452.3 million for 2009. The Group's operating margin decreased from 25.8% for 2009 to -8.9% for 2010. The decrease was mainly due to the decrease in sales, increase in the proportion of the costs of sales over the revenue and the increase in operating expenses.

Income Tax

The Company had an income tax credit of RMB16.2 million for 2010 as compared to income tax expenses of RMB86.7 million for 2009. This was due to the origination of temporary differences in deferred tax and the bonus deduction of R&D expenses for the year ended 31 December 2009, the approval of which was obtained by the Group in 2010, partially offset by a provision for Hong Kong profits tax.

Loss for the Year Attributable to the Equity Shareholder

As a combined effect of the above, the Group recorded an attributable loss of RMB118.0 for the year ended 2010, as compared to the attributable profit of RMB364.1 million for 2009. The Group's net loss ratio stood at -8.0%.

PROSPECT

The central government of the PRC announced in mid-October 2010 the details of the 12th Five-Year Plan for national economic and social development of China (2011–2015). One of the key missions in this fiscal policy in the next five years is to boost domestic consumption so as to steer its economy away from the low growth brought by export and investment.

The majority of China's population has benefited from the recent economic boom, the Chinese government would aim to restructure and rebalance the economy to reduce inequality, to promote equal income distribution, and to enhance the purchasing power of the people in rural areas and townships by accelerating urbanization and increasing their household income.

The Directors believe that such development would trigger a demand for quality HPC products. The Directors are confident that with the Company's core competencies and unique competitive advantages in the Chinese herbal shampoo and other Chinese herbal HPC products in the PRC, the Company should be able to take advantages of any opportunities to increase our revenue and our market shares by offering new brands and premium products.

While the Directors maintain an optimistic view of the macro economy of China in the next few years, the Directors remain cautious about the adverse impacts on the local and/or global economy arising from the threat of inflation in China's economy, the concerns over the March 11 earthquake, tsunami and the subsequent nuclear crisis in Japan, and the violence in some of the countries in North Africa.

Ever since the publication of the inaccurate magazine article by Next Magazine in mid-July 2010, our business operations have been interrupted, our brand images have been harmed and our operating results have declined significantly in the second half 2010. After making tremendous efforts to rebuild our brand and corporate images, the Directors consider that the Group has now returned to normal operations, that we have started restoring the consumers' confidence, and that we strive to be innovative and achieve brilliant results again in our business. We set out below our business development plans and strategies for 2011.

For Bawang (霸王系列) branded products series, as part of our restoration programme, we will continue to promote the profound culture, applications and benefits of traditional Chinese medicine so as to enhance the awareness of the general public. We will strive to maintain our leadership in the Chinese herbal shampoo market in China, to further increase the revenue through extensive coverage of our sales and distribution network into new areas, to deepen the penetration of the existing established regional markets, particularly those regions other than Southern China, to boost the sales to the same retailer and distributor, and to expand the revenue stream through the launch of enhanced product and/or product series with new brand image so as to expand the coverage of market segments and hence increase sales revenue.

For the Royal Wind Chinese herbal anti-dandruff shampoo series (追風系列), we target to deepen the penetration of the existing established sales channels so as to increase the market share of in the Chinese herbal antidandruff shampoo market. We will continue to expand the distribution network for Royal Wind brand (追風) so that the market coverage can be on the same level of Bawang brand's (霸王). At the same time, we will streamline the existing product series whereby we retain the hot selling items, enhance the brand awareness and brand image, and to increase the consumers' confidence. We strive to build up this brand as another leading Chinese herbal shampoo within the next few years.

For the Herborn Chinese herbal skincare products series (本草堂系列) branded products, we will continue to build up the brand image through setting up counters in department stores, hypermarket and dedicated shops. To broaden the revenue base, we target to set up approximately 2,500 counters in cosmetics specialty shops on nationwide basis in the PRC We believe that Herborn would become a leading brand in the Chinese herbal skincare market as well as one of our key revenue contributors in the next three years.

For Bawang Herbal Tea (霸王涼茶), we will continue to expand the sales network into the new areas and we plan to deepen the penetration of the existing network that has been established. We believe that this business segment will become one of our revenue contributors this year.

As for new products, the Group successfully rolled out the enhanced product series as natural-based shampoo and shower gel products series "Litao"(麗濤系列) in October 2010. We may launch a new branded Chinese herbal household cleaning product series, depending on the sales performance of our existing product lines.

The Group will continue with its plan to lease a new production premises located in Baiyun District, Guangzhou with an estimated site area of 75,000 square meters. The construction of the first phase of the new premises has already completed and installation and fittings works will follow. Once the new facilities of the first phase are in operations, we estimate that the aggregate annual production capacity for shampoo products, hair-care products, and skincare products will increase by 100,000 metric tons to approximately 200,000 metric tons.

The Group plans to lease another production plant in Huadu District, Guangzhou, for our herbal tea business. The site preparation has been completed and the construction work is in progress. We expect that the plant would finish for installation and fittings in 2012.

The Company has already set up the Chinese herbal plantation in Guangdong province in early 2010 and it has recently started got its first yield of Chinese herbs. The Company is now replicating its agricultural practices for training and development of farmers on how to maximise output in herbs field cultivation. The Group is looking for more sites in other places in China for setting up additional herbal plantation.

In terms of our development plan in overseas market, the Group will continue to explore the possibility with potential distributors for launching our branded products to overseas markets. The Group is exploring with potential distributors for launching Bawang Herbal Tea (霸王涼茶) in places including Hong Kong, Singapore and Thailand.

The Company has successfully diversified into three different segments of products. The Company intends to concentrate its efforts and resources on the building of newly-launched brands and also the strengthening of the established brands. The Company does not have any outstanding acquisition opportunity in hand. The Company will not actively explore opportunities that may involve potential acquisition for the time being.

Looking forward, we will make use of our core competencies and specialty in traditional Chinese herbs to research, develop, and design advanced and competitive Chinese herbal HPC products. We will continue to expand and/or optimize our distribution network for our different branded products. We will continue to increase our product lines and to implement multi-product and multi-brand strategy, aiming to become a global leader of branded Chinese herbal HPC products operator and to bring the best returns to our investors.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts conservative financial management policies and maintains a good and solid financial position. A summary of liquidity and financial resources is set out below:

	31 December 2010 *RMB in million*	31 December 2009 *RMB in million*
Cash and cash equivalent	1,186.5	1,742.5
Total bank and other borrowings[1]	209.8	158.5
Total assets	2,033.4	2,544.3
The gearing ratio[2]	10.3%	6.2%

Note:

1. The borrowings were wholly denominated in US Dollars.
2. Calculate as interest-bearing borrowings divided by total assets

MATERIAL ACQUISITION AND DISPOSAL

The Group did not engage in any material acquisitions or disposal of any its subsidiaries or associated companies for 2010.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group has exported its goods to Hong Kong and certain Southeast Asian countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are mostly denominated in Reminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared. In addition, the Group paid certain advertising fees in United States Dollars or Hong Kong Dollars. The Directors are of the view that the Group conducts its business transactions principally in Reminbi and thus the exchange risk at the Group's operational level is not significant. As at 31 December 2010, apart from a non-deliverable forward foreign exchange contracts entered into with a licenced banks in Hong Kong to sell Renminbi for United States dollars, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes. However, the Directors will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when required.

CONTINGENT LIABILITIES

The Group had no material capital liabilities as at 31 December 2010.

CAPITAL COMMITMENT

As at 31 December 2010, the capital commitment of the Group was amounted to 27.9 million.

HUMAN RESOURCES

As of 31 December 2010, the Group employed approximately 4,663 employees (including staff members and contract personnel) in the PRC and Hong Kong. Total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to RMB143.7 million for 2010.

The employees' remuneration, promotion and salary review are based on job responsibilities, work performances, professional experiences and the prevailing industry practices.

Our employees in the PRC and Hong Kong joined social insurance contribution plans and mandatory provident fund scheme respectively. Other benefits include performance-based incentive bonus scheme and share options granted or to be granted under the share option schemes.

To enable our employees to reach their full potential, we are committed to staff training and development. In 2010, the Group organized 14 in-house training classes with approximately 701 participants in aggregate.

The Directors believe that the Group's human resources policies play a crucial part in further development of the Group. Promising career prospects, good staff remuneration and benefits as well as pleasant working environment are essential factors for maintenance of a stable workforce for the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing the corporate governance of the Group, and the Board reviews and updates all such necessary measures in order to promote good corporate governance.

The Company has adopted and complied with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to Listing Rules during the year.

Reference in made to the announcement of the Company dated 25 February 2011 with respect to certain previous continuing connected transactions of the Company. In order to prevent the occurrence of similar incidents in the future, the Company has taken steps to strengthen the internal controls over the procurement, accounting and payment cycles of all transaction with connected persons and to conduct training sessions for its management teams so as to reinforce the importance of compliance with the requirements of the Listing Rules governing connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with the Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has also complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise. The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group. The Audit Committee also provides advice and suggestions to the Board. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2010 with the management of the Company and the Company's independent auditors and recommended its adoption by the Board.

DIVIDENDS

The Board does not recommend the payment of any final dividends in respect of the year ended 31 December 2010.

ANNUAL GENERAL MEETING

The annual general meeting ("**AGM**") of the Company will be held in Hong Kong on Monday, 23 May 2011. A notice of the annual general meeting will be published and despatched to shareholders in accordance with the requirement of the Listing Rules.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and the Stock Exchange (www.hkex.com.hk). The annual report for the ended of 31 December 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to take these opportunities to express its gratitude to all Shareholders, customers, suppliers, banks, professional parties and employees of the Company for their continuous patronage and support.

By Order of the Board
BaWang International (Group) Holding Limited
Chen Qiyuan
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely, Mr. CHEN Qiyuan, Ms. WAN Yuhua, Mr. SHEN Xiaodi and Mr. WONG Sin Yung, one non-executive director, namely, Ms. GUO Jing, and three independent non-executive directors, namely, Mr. NGAI Wai Fung, Mr. LI Bida and Mr. CHEN Kaizhi.