# 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 2014

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 2014 together with the comparative figures of 2013.

The Board refers to the profit warning announcements of the Group dated 13 January 2015 and 26 March 2015. The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2014:

Total revenue of the continuing operations of the Group was approximately RMB294.6 million, representing a decrease of approximately 38.3% from approximately RMB477.7 million for 2013.

Operating loss from the continuing operations of the Group was reduced to approximately RMB113.7 million, representing a decrease by approximately 16.5% from approximately RMB136.2 million for 2013.

Net loss from the continuing operations narrowed to approximately RMB115.5 million as compared to a net loss of approximately RMB136.9 million for 2013.

Loss attributable to owners of the Company improved to approximately RMB116.5 million as compared with the attributable loss of approximately RMB143.5 million for 2013.

Loss per share from continuing operations (Basic and diluted) was approximately RMB3.97 cents per share.

Following review of the operating results of the Group, the Board does not recommend the payment of a final dividend.

* *for identification purpose only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2014*

| | Notes | **2014** RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3 | **294,649** | 477,657 |
| Cost of sales | | **(184,417)** | (246,066) |
| Gross profit | | **110,232** | 231,591 |
| Other income | 4 | **2,778** | 5,408 |
| Changes in fair value less costs to sell in respect of biological assets | | **(1,782)** | (223) |
| Selling and distribution costs | | **(144,544)** | (295,024) |
| Administrative expenses | | **(37,810)** | (58,583) |
| Other expenses | | **(42,585)** | (19,358) |
| Finance costs | 5 | **(1,830)** | (702) |
| Loss before taxation | | **(115,541)** | (136,891) |
| Taxation | 6 | **—** | — |
| Loss for the year from continuing operations attributable to owners of the Company | 7 | **(115,541)** | (136,891) |
| **Discontinued operation** | | | |
| Loss for the year from discontinued operation attributable to owners of the Company | 8 | **(916)** | (6,611) |
| Loss for the year attributable to owners of the Company | | **(116,457)** | (143,502) |
| **Loss per share** | 10 | | |
| *From continuing and discontinued operations* | | | |
| Basic and diluted (RMB cents) | | **(4.00)** | (4.93) |
| *From continuing operations* | | | |
| Basic and diluted (RMB cents) | | **(3.97)** | (4.70) |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2014*

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss for the year | **(116,457)** | (143,502) |
| Other comprehensive expense | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences arising on translation of foreign operations | **(106)** | (6,910) |
| Total comprehensive expense for the year attributable to owners of the Company | **(116,563)** | (150,412) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **225,340** | 294,256 |
| Prepaid advertising fee | | **—** | 123 |
| Biological assets | | **175** | 170 |
| | | **225,515** | 294,549 |
| **Current assets** | | | |
| Inventories | | **52,039** | 55,341 |
| Biological assets | | **426** | 1,886 |
| Trade and other receivables | 12 | **68,168** | 94,922 |
| Restricted bank balance | | **—** | 309 |
| Deposit with bank | | **20,000** | — |
| Bank balances and cash | | **16,934** | 43,302 |
| | | **157,567** | 195,760 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **166,034** | 212,121 |
| Amounts due to related parties | | **6,208** | 1,514 |
| Income tax payables | | **9,645** | 9,645 |
| Provisions | | **2,044** | 1,826 |
| | | **183,931** | 225,106 |
| Net current liabilities | | **(26,364)** | (29,346) |
| Total assets less current liabilities | | **199,151** | 265,203 |

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Non-current liabilities** | | |
| Loans from controlling shareholders | **44,069** | — |
| Deferred tax liability | **2,031** | 2,031 |
| | **46,100** | 2,031 |
| Net assets | **153,051** | 263,172 |
| Capital and reserves | | |
| Share capital | **256,639** | 256,639 |
| Reserves | **(103,588)** | 6,533 |
| Total equity | **153,051** | 263,172 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2014*

## 1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate parent company is Fortune Station Limited, which is incorporated in the British Virgin Islands (the "BVI") and is beneficially owned by Mr. CHEN Qiyuan, the Chairman of the Board, and Ms. WAN Yuhua, the director and Chief Executive Officer of the Company (collectively referred to as the "Controlling Shareholders").

The address of the registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is at 6th Floor, 181 Tangle Road, Tangyong Village, Xinshi, Baiyun District, Guangzhou, 510410, the People's Republic of China (the "PRC").

The principal activities of the Group are the manufacturing and sales of the household and personal care products. The Group was also engaged in the sales of herbal tea products which were discontinued in the year ended 31 December 2013 (see note 8).

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

**Going concern basis**

The Group incurred a net loss of approximately RMB116,457,000 and reported a net cash outflow from operating activities of approximately RMB48,315,000 for the year ended 31 December 2014, and had accumulative losses of approximately RMB1,501,422,000 and net current liabilities of approximately RMB26,364,000 as at 31 December 2014. In view of such circumstances, the Directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

In the opinion of the Directors of the Company, the Group is able to continue as a going concern in the coming year taking into consideration of the following:

(i) The Group's Controlling Shareholders and Guangzhou Bawang Cosmetics Co., Ltd. ("Guangzhou Bawang"), an entity wholly-owned by the Controlling Shareholders, shall continue to provide loan facility to the Group until 31 December 2015 under the existing available facility amounted to approximately RMB91,516,000 as at 31 December 2014. On 31 March 2015, amount of HK$40,000,000 (equivalent to approximately RMB31,684,000) has been drawn down by the Group. The loan is unsecured, interest-free and repayable by 30 March 2016 or earlier as determined by the Group.

(ii) The Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations, including but not limited to adopting more cost-effective advertising and promotion channels.

In light of the above, the Directors of the Company are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 December 2014 on a going concern basis.

Should the Group be not able to continue to operate as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

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

In the current year, the Group has applied the following amendments to IFRSs and a new interpretation, issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRS Interpretations Committee — Interpretation 21 | Levies |

Except as described below, the application of the above amendments to IFRSs and interpretation in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

**Amendments to IAS 36 — Recoverable Amount Disclosures for Non-Financial Assets**

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosure for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

These amendments have been considered while making disclosures for impairment of non-financial assets in note 11. These amendments would continue to be considered for future disclosures.

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

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable of the goods sold to customers, net of discounts allowed, volume rebates and sales related taxes where applicable.

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on a mixture of product lines and geography. The segments are managed separately as each operating segment offers different products which require different production information to formulate different strategies. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

- Hair-care products
- Skin-care products
- Other household and personal care products

An operating segment regarding herbal tea products was discontinued in the year ended 31 December 2013. The segment information reported below does not include any amounts for this discontinued operation, which is described in more detail in note 8.

Also, the Executive Directors of the Company are provided with segment information concerning segment revenue and result. Segment assets and liabilities are not reported to the Executive Directors of the Company regularly.

### Segment revenue and results

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

| | Continuing operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Hair-care products | | Skin-care products | | Other household and personal care products | | Total | |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Sales to external customers | **256,474** | 400,447 | **14,084** | 34,427 | **24,091** | 42,783 | **294,649** | 477,657 |
| Segment loss | **(81,283)** | (107,053) | **(1,459)** | (9,972) | **(19,798)** | (6,445) | **(102,540)** | (123,470) |
| Changes in fair value less costs to sell in respect of biological assets | | | | | | | **(1,782)** | (223) |
| Bank interest income | | | | | | | **540** | 834 |
| Other income | | | | | | | **2,238** | 1,577 |
| Corporate and other unallocated expenses | | | | | | | **(12,167)** | (14,907) |
| Finance costs | | | | | | | **(1,830)** | (702) |
| Loss before tax (continuing operations) | | | | | | | **(115,541)** | (136,891) |

Segment results represent the loss made by each segment without allocation of changes in fair value less costs to sell of biological assets, bank interest income, gain on sales of scrap materials, net exchange gains/losses, provision for litigation recognised/reversed, write-off of other receivables, central administration cost, directors' emoluments and finance costs. This is the measure reported to the Executive Directors of the Company for the purposes of resource allocation and performance assessment.

**Other segment information**

| | Continuing operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Hair-care products | | Skin-care products | | Other household and personal care products | | Total | |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Amounts included in the measure of segment results** | | | | | | | | |
| Depreciation of property, plant and equipment | **21,764** | 22,324 | **1,272** | 1,849 | **3,813** | 2,532 | **26,849** | 26,705 |
| Impairment loss recognised in respect of property, plant and equipment | **37,650** | 14,330 | **1,358** | 1,232 | **3,536** | 1,531 | **42,544** | 17,093 |
| Loss (gain) on disposal of property, plant and equipment | **36** | (235) | **2** | (20) | **3** | (25) | **41** | (280) |
| Impairment loss recognised (reversed) in respect of trade receivables | **63** | (2,278) | **3** | (196) | **6** | (243) | **72** | (2,717) |
| Reversal of write-down of inventories | **(742)** | (8,278) | **(63)** | (701) | **(88)** | (978) | **(893)** | (9,957) |
| Write-down of inventories | **1,000** | 2,734 | **62** | 232 | **194** | 323 | **1,256** | 3,289 |
| Write-off of inventories | **7,120** | 10,930 | **1,700** | 661 | **1,088** | 1,001 | **9,908** | 12,592 |

**Geographical information**

The Group's continuing operations are mainly located in the PRC (country of domicile) and Hong Kong.

The geographical location of customers is based on the location at which the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and biological assets, and the location of the operation to which they are allocated, in the case of the non-current portion of prepaid advertising fee.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| PRC (country of domicile) | **278,995** | 458,891 | **224,622** | 293,412 |
| Hong Kong | **9,951** | 12,786 | **893** | 1,137 |
| Thailand | **2,131** | 2,032 | **—** | — |
| Malaysia | **2,007** | 1,598 | **—** | — |
| Singapore | **1,241** | 2,184 | **—** | — |
| Others | **324** | 166 | **—** | — |
| Total | **294,649** | 477,657 | **225,515** | 294,549 |

**Information about major customers**

Included in revenue arising from continuing operations for the year ended 31 December 2014 of approximately RMB294,649,000 is revenue of approximately RMB62,877,000 which arose from sales of hair-care products and other household and personal care products to the Group's largest customer. No other single customer contributed more than 10% to the Group's revenue for 2014. During the year ended 31 December 2013, none of the Group's individual customer contributed more than 10% to the total revenue of the Group.

## 4. OTHER INCOME

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Continuing operations** | | |
| Bank interest income | **540** | 834 |
| Gain on sales of scrap materials | **1,205** | 1,060 |
| Gain on disposal of property, plant and equipment | **—** | 280 |
| Impairment loss reversed in respect of trade receivables | **—** | 2,717 |
| Recovery from litigation claim *(note)* | **680** | — |
| Net foreign exchange gains | **12** | — |
| Reversal of provision for litigation | **120** | — |
| Others | **221** | 517 |
| | **2,778** | 5,408 |

*Note:* During the year ended 31 December 2014, a claim against other party in respect of purchase of petroleum was settled by mediation and an amount of RMB680,000 (2013: nil) was recovered by the Group.

## 5. FINANCE COSTS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Continuing operations** | | |
| Interest on secured bank loans wholly repayable within five years | **—** | 702 |
| Imputed interest on non-interest bearing loans from controlling shareholders | **1,830** | — |
| | **1,830** | 702 |

## 6. TAXATION

(a) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries is 25% from 1 January 2008 onwards.

The PRC EIT Law allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("HNTE") which entitles the qualified companies to a preferential income tax rate of 15%. Bawang (Guangzhou) Co., Ltd. ("Bawang Guangzhou"), a PRC subsidiary of the Group, was qualified as a HNTE in 2009 and the qualification was renewed and valid until 2014. However, Bawang Guangzhou did not have any assessable profits subject to Enterprise Income Tax for the years ended 31 December 2014 and 2013.

(b) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. No tax is payable on profit for the year ended 31 December 2014 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. No provision for Hong Kong Profits Tax has been provided for the year ended 31 December 2013 as the Group does not have any assessable profits subject to Hong Kong Profits Tax for 2013.

(c) Pursuant to the laws 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 for the current and previous years.

(d) Pursuant to the Implementation Rules of the EIT Law, overseas investors of foreign investment companies 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 the beneficial owner is 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 does not make provision of withholding income tax for the years ended 31 December 2014 and 2013 since the PRC subsidiaries incur losses in both years.

## 7. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

Loss for the year from continuing operations has been arrived at after charging (crediting):

| | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| Auditor's remuneration | **737** | 673 |
| Cost of inventories recognised as an expense *(note (a))* | **184,417** | 246,066 |
| Depreciation of property, plant and equipment | **26,980** | 27,440 |
| Impairment loss recognised in respect of property, plant and equipment (included in other expenses) | **42,544** | 17,093 |
| Impairment loss recognised in respect of trade receivables | **72** | — |
| Loss on disposal of property, plant and equipment | **41** | — |
| Net foreign exchange loss | **—** | 34 |
| Provision for litigation (included in other expenses) | **—** | 1,826 |
| Research and development costs recognised as an expense | **10,036** | 17,862 |
| Reversal of write-down of inventories (included in cost of inventories recognised as an expense above) | **(893)** | (9,957) |
| Staff costs *(note (b))* | **74,854** | 132,566 |
| Write-down of inventories (included in cost of inventories recognised as an expense above) | **1,256** | 3,289 |
| Write-off of inventories (included in cost of inventories recognised as an expense above) | **9,908** | 12,592 |
| Write-off of other receivables (included in other expenses) | **—** | 439 |

*Notes:*

(a) Cost of inventories recognised as an expense from continuing operations included depreciation of property, plant and equipment and staff costs of approximately RMB24,610,000 (2013: RMB21,695,000) and RMB21,385,000 (2013: RMB39,172,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) Staff costs from the continuing operations included redundancy costs of approximately RMB889,000 (2013: RMB9,679,000) for the year ended 31 December 2014.

## 8. DISCONTINUED OPERATION

During the year ended 31 December 2013, the Directors of the Company resolved to discontinue the production and sales of its herbal tea products due to the unsatisfactory financial performance of the business of the herbal tea products with effect from 1 July 2013.

As the herbal tea products segment represented a separate major line of business of the Group in prior years, the discontinuance of production and sales of herbal tea products has constituted a discontinued operation during the year ended 31 December 2013.

The results of the herbal tea products operation for the years ended 31 December 2014 and 2013 were as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue | **—** | 723 |
| Cost of sales | **—** | (2,046) |
| Other income | **—** | 2,477 |
| Selling and distribution costs | **—** | (6,397) |
| Administrative expenses | **(40)** | (328) |
| Other expenses | **(876)** | (1,040) |
| Loss before taxation | **(916)** | (6,611) |
| Taxation | **—** | — |
| Loss for the year | **(916)** | (6,611) |

Loss for the year from discontinued operation includes the following:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank interest income | **—** | (2) |
| Cost of inventories recognised as an expense | **—** | 2,046 |
| Depreciation of property, plant and equipment | **18** | 213 |
| Impairment loss recognised in respect of property, plant and equipment (included in other expenses above) | **—** | 645 |
| Loss on disposal of property, plant and equipment (included in other expenses above) | **86** | 13 |
| Provision for litigation (included in other expenses above) | **662** | — |
| Staff costs *(note)* | **—** | 1,521 |
| Write-off of trade and other receivables (included in other expenses above) | **128** | 150 |
| Write-back of trade and other payables | **—** | (2,471) |
| Write-down of inventories (included in cost of inventories recognised as an expense above) | **—** | 854 |
| Write-off of inventories (included in cost of inventories recognised as an expense above) | **—** | 462 |

No tax charge or credit arose on loss on discontinuance of the operation.

*Note:* Staff costs from discontinued operation included redundancy costs of approximately RMB482,000 (2014: nil) for the year ended 31 December 2013.

## 9. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: nil).

## 10. LOSS PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to owners of the Company is based on the loss for the year from continuing and discontinued operations of approximately RMB116,457,000 (2013: RMB143,502,000) and the weighted average number of approximately 2,910,971,000 (2013: 2,910,971,000) ordinary shares in issue during the period.

### From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the loss for the year from continuing operations of approximately RMB115,541,000 (2013: RMB136,891,000) and the weighted average number of approximately 2,910,971,000 (2013: 2,910,971,000) ordinary shares in issue during the period.

**From discontinued operation**

Basic and diluted loss per share for the discontinued operation attributable to owners of the Company is RMB0.03 cents per share (2013: RMB0.23 cents per share), based on the loss for the year from the discontinued operation of approximately RMB916,000 (2013: RMB6,611,000) and the denominators detailed above for both basic and diluted loss per share.

For the years ended 31 December 2014 and 2013, the diluted loss per share is same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2014 and 2013 does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2014, the management conducted a review of the property, plant and equipment which were used in the continuing operations and determined that those assets were impaired with reference to their value in use. Accordingly, impairment loss of approximately RMB28,413,000 (2013: RMB17,093,000) has been recognised under other expenses of continuing operations in the consolidated statement of profit or loss. The value in use calculation is determined based on the financial budgets covering a twelve-year period (2013: ten-year period) which is reference to the estimated useful life of the assets, and a pre-tax discount rate of 15.51% (2013: 17.73%) per annum, approved by the management of the Group.

During the year ended 31 December 2014, a lawsuit was filed by Bawang Guangzhou against a supplier in Guangzhou Baiyun District Law Court (the "District Court") for the incomplete construction and unsatisfactory performance of plant and machineries provided by the supplier. Subsequent on 2 February 2015, the District Court issued a verdict for the lawsuit whereby (i) the purchase contracts for the plant and machineries were terminated; (ii) the supplier should pay Bawang Guangzhou a sum of approximately RMB22,518,000 representing purchase cost paid and liquidated damages in addition to interest; and (iii) the plant and machineries concerned should be dismantled and removed from the factory of Bawang Guangzhou by the supplier. Due to the non-performance of those plant and machineries as at 31 December 2014, the carrying value of the related property, plant and equipment amounting to approximately RMB14,131,000 was fully impaired during the year ended 31 December 2014 and the impairment loss has been recognised under other expenses of continuing operations in the consolidated statement of profit or loss.

During the year ended 31 December 2013, the management conducted a review of the manufacturing assets which were used for the production of herbal tea products and determined that a number of those assets were impaired due to idleness following discontinued operation. Accordingly, impairment loss of approximately RMB645,000 (2014: nil) has been recognised under other expenses of discontinued operation for the year ended 31 December 2013.

## 12. TRADE AND OTHER RECEIVABLES

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **68,234** | 89,937 |
| Less: Accumulated impairment | **(4,712)** | (4,640) |
| | **63,522** | 85,297 |
| Prepayment for purchase of raw materials | **819** | 1,285 |
| Short-term prepaid advertising fee | **667** | 3,958 |
| Other receivables | **3,160** | 4,382 |
| Total trade and other receivables | **68,168** | 94,922 |

The Group allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade receivables, net of impairment, presented based on the due date at the end of the reporting period:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | **41,612** | 56,742 |
| Less than 3 months past due | **17,865** | 20,937 |
| More than 3 months but less than 6 months past due | **2,779** | 6,790 |
| More than 6 months but less than 12 months past due | **1,191** | 372 |
| More than 12 months past due | **75** | 456 |
| | **21,910** | 28,555 |
| | **63,522** | 85,297 |

## 13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the due date at the end of the reporting period:

| | 2014 | 2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Due within 1 month or on demand | **39,702** | 42,963 |
| Due after 1 month but within 3 months | **3,586** | 5,908 |
| | **43,288** | 48,871 |

The average credit period on purchases is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 14. LITIGATIONS

(a) The Directors consider that the contents of the relevant article published by a media company on 14 July 2010 are defamatory to the Group and/or amount to malicious falsehood. Therefore, the Group commenced legal proceedings in the High Court of Hong Kong in October 2010 against the media company seeking, inter alia, damages and an injunction to restrain the media company from publishing such contents or similar contents. As at the date of this announcement, the legal proceedings are in progress.

(b) A lawsuit had been filed by a distributor against Bawang Guangzhou in the District Court whereby the distributor alleged that Bawang Guangzhou was liable to pay an outstanding reimbursement for the promotion fees of approximately RMB6,413,000 pursuant to an agreement entered into between it and Bawang Guangzhou on 12 April 2010.

On 20 November 2013, the District Court issued a verdict for the lawsuit whereby Bawang Guangzhou was ordered to pay the distributor of an aggregate amount of approximately RMB1,606,000 and a legal cost of approximately RMB20,000. The distributor subsequently appealed to a higher court and the court dismissed the appeal and maintained the original adjudication. As at 31 December 2013 and 2014, an aggregate provision of approximately RMB1,626,000 has been recognised in the consolidated financial statements. The amount has been subsequently settled in February 2015.

(c) During the year ended 31 December 2013, Bawang Guangzhou was a defendant in a legal action involving the alleged software infringement and provision of RMB200,000 was recognised as at 31 December 2013 according to the legal opinion.

During the year ended 31 December 2014, the District Court issued a verdict for the lawsuit whereby Bawang Guangzhou was ordered to pay the software supplier of an aggregate amount of RMB80,000. Accordingly, reversal of provision in amount of RMB120,000 has been recognised as other income for the year ended 31 December 2014.

(d) In prior years, a lawsuit was filed by a former subcontractor against Bawang (China) Beverage Co., Ltd. ("Bawang Beverage") in People's Court of Songjiang District of Shanghai (the "Shanghai Court") in respect of a dispute in the material processing contract between the former subcontractor and Bawang Beverage.

During the year ended 31 December 2013, Bawang Beverage received a civil order issued by the Shanghai Court, which accepted the application by the former subcontractor for property attachment prior to lawsuit to freeze Bawang Beverage's bank accounts in the amount of approximately RMB873,000 or other assets under the name of Bawang Beverage. In connection with the lawsuit, one of Bawang Beverage's bank accounts with an amount of approximately RMB309,000 was frozen. No accrual has been recorded by the Group as at 31 December 2013 based on the opinion provided by the PRC legal counsel acting on behalf of Bawang Beverage.

On 20 June 2014, Shanghai No. 1 Intermediate People's Court gave its final ruling that Bawang Beverage was liable to the former subcontractor for an amount of approximately RMB643,000 and a legal cost of approximately RMB19,000. Accordingly, provision for litigation in amount of approximately RMB662,000 was recognised as other expense in the consolidated statement of profit or loss and amount of approximately RMB324,000 was settled during the year.

(e) During the year ended 31 December 2014, a lawsuit was filed by Bawang Guangzhou against a supplier in District Court for the incomplete construction and unsatisfactory performance of plant and machineries provided by the supplier. Subsequent on 2 February 2015, the District Court issued a verdict for the lawsuit whereby (i) the purchase contracts for the plant and machineries were terminated; (ii) the supplier should pay Bawang Guangzhou a sum of approximately RMB22,518,000 representing purchase cost paid and liquidated damages in addition to interest; and (iii) the plant and machineries concerned should be dismantled and removed from the factory of Bawang Guangzhou. As at the date of this announcement, no settlement has been received from the supplier.

## 15. EVENTS AFTER THE REPORTING PERIOD

(a) As mentioned in notes 11 and 14(e), subsequent on 2 February 2015, the District Court issued a verdict for the lawsuit in relation to the incomplete construction and unsatisfactory performance of plant and machineries whereby the supplier was ordered to pay Bawang Guangzhou of an aggregate amount of approximately RMB22,518,000 representing purchase cost paid and liquidated damages in addition to interest charges. As at the date of this announcement, no settlement has been received from the supplier.

(b) As mentioned in note 1, on 31 March 2015, loan amount of HK$40,000,000 (equivalent to approximately RMB31,684,000) has been granted by the Controlling Shareholders to the Group. The loan is unsecured, interest-free and repayable by 30 March 2016 or earlier as determined by the Group.

(c) Subsequent to the end of the reporting period, the Directors of the Company have reassessed the estimated useful lives of property, plant and equipment and resolved that the useful life of machinery should be adjusted from 10 years to 15 years in view of the low utilisation rate of machinery with the shrinking revenue. The change in accounting estimate will decrease the depreciation charge and loss before taxation (or increase profit before taxation) for the year ending 31 December 2015.

## BUSINESS REVIEW

The Directors report that the total revenue of the continuing operations of the Group for the year ended 31 December 2014 was approximately RMB294.6 million, representing a decrease of approximately 38.3% from approximately RMB477.7 million in 2013. The operating loss from the continuing operations of the Group for the year ended 31 December 2014 was approximately RMB113.7 million, representing an improvement by approximately 16.5%, as compared with the operating loss of approximately RMB136.2 million in 2013.

For the year ended 31 December 2014, the net loss from the continuing operations of the Group was approximately RMB115.5 million, as compared with the net loss of approximately RMB136.9 million in 2013. The Group was able to optimize its resources, resulting in a decrease in net loss from the continuing operations as compared with 2013.

For further information on the operating performance of the Group, please refer to the Financial Review section of this announcement.

During the year under review, the Group continued to implement stringent cost control measures. The successful implementation of the ongoing value-chain-oriented business model has enabled the Group to improve the operating results of the continuing operations by reducing the selling, distribution and administration costs in the amount of approximately RMB171.3 million for the year ended 31 December 2014, as compared with those in 2013.

The Group always makes use of popular events and festive seasons for carrying out marketing campaigns and promotions to publicize its branded products. During the World Cup football tournament finals in June 2014, the Group seized the opportunity to further promote the Bawang anti-hair fall shampoos with its benefits to help relieve the hair-falling problems which might be caused by insufficient sleep, along with the on-going promotion slogan "Never fear of hair-loss, use Bawang shampoo (怕脱髮，用霸王)". We also carried out the campaign "Shampoo for love (為愛洗一次頭)" during the major festivals in China. Mr. Jackie Chan continued to be the brand ambassador of Bawang shampoo during the year under review. As of 31 December 2014, the Bawang brand distribution network comprised approximately 481 distributors and 34 KA retailers, covering 27 provinces and four municipalities in China. Furthermore, products of the Group were also sold in Hong Kong, Singapore, Thailand, Malaysia and Indonesia.

During the year under review, the Group has successfully developed a new channel for supplying Royal Wind shampoo and shower gel to business hotel chains in China. The Group was promoting the brand image of Royal Wind shampoo with the marketing theme "Anti-dandruff in Speedy and Natural Manner (快速去屑更天然)" through multiple media such as television, the Internet and public bus light-boxes. As of 31 December 2014, the Royal Wind brand distribution network comprised 440 distributors and 27 KA retailers, covering 27 provinces and four municipalities in China.

The Litao products mainly comprise shampoo, shower gels and laundry detergent, targeting at consumers living in the second-tier or third-tier cities in China. The Group's goal is to widen the market coverage in China. During the year under review, the Group started promoting Litao products through popular and interactive social media. As of 31 December 2014, the distribution network for Litao products comprised approximately 337 distributors covering 27 provinces and four municipalities in China.

The Group's Herborn Chinese herbal skincare products target white-collar ladies in the age range of 25 to 45 who have relatively high net income and are enthusiastic about pursuing a healthy and natural lifestyle. From time to time, we conducted skincare seminars for our target consumers so as to allow them to understand the concepts and benefits of using traditional Chinese medicine for skin-care. In terms of sales channels, the Group is now selling the products mainly through cosmetics specialty shops throughout China. As of 31 December 2014, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 89 distributors covering 27 provinces and four municipalities in China. The Group also had about 5,500 counters in cosmetics specialty shops in mainland China.

During the year under review, we sold natural plant skincare products series, Smerry, which target young ladies in the age range of 18 to 28 who are to pursue a natural and healthy lifestyle. The Group is pleased to find that Smerry has established its brand position and recognition in its own target market segment.

The business operations of Bawang Herbal Tea had been discontinued since 1 July 2013. The Group is in the course of following up the matters after the discontinuance of this business. Save as disclosed above, there have been no material changes in the business of the Group since the publication of the Company's annual report for the year ended 31 December 2013.

In a presentation ceremony for the 18th National Top Selling and Leading Brand Awards held by the Chinese Industrial Information Issuing Centre of the National Bureau of Statistics of China in March 2014, Bawang branded product was awarded the No. 1 Anti Hair-fall Chinese Herbal Shampoo in China in 2013.

During the year under review, we obtained recognitions as follows:

— We were accredited as "The 2013 Innovator of the Guangdong Provincial Pharmaceutical Market (2013年度廣東省醫藥行業市場開拓先進單位)" by the Guangdong Pharmaceutical Profession Association in March 2014.

— Ms. Wan Yuhua, Chief Executive Officer and executive Director of the Group, has been appointed as Executive Vice-chairman of the Guangdong Chamber of Daily Used Chemical (廣東省日化商會) since March 2014.

— A number of Bawang and Royal Wind branded shampoos were recognized as "The 2013 New High-tech Products in Guangdong (2013年廣東省高新技術產品)" by the Guangdong Provincial Bureau of Science & Technology in April 2014.

— Our marketing and promotional campaign with the theme "Shampoo for Love (為愛洗一次頭)" was awarded "The Best Social Project (最佳公益項目)" in the 4th China Social Festival in January 2015.

The Board believes that these achievements were recognitions of the Group's continuous effort in research, development and industrialisation of Chinese herbal medicine.

From time to time, we make applications for registration of patents relating to our research findings on the application of Chinese herbs in the hair care, skincare and healthcare products. The successful registration of which is a further recognition for our continuous dedication to research and development.

**Litigation**

The Board considers that the contents of the relevant article published by Next Magazine on 14 July 2010 are defamatory to the Group and/or amount to malicious falsehood. Therefore, the Group commenced legal proceedings in the High Court of Hong Kong in October 2010 against Next Magazine seeking, *inter alia*, damages and an injunction to restrain Next Magazine from publishing such contents or similar contents. As of the date of this announcement, two pre-trial hearings in relation to the legal proceedings had taken place on 2 December 2014 and 2 February 2015, respectively. The trial of the legal proceedings has commenced on 2 March 2015 and is in progress.

## FINANCIAL REVIEW

### Continuing Operations

***Revenue***

During the year under review, the Group's revenue of the continuing operations amounted to approximately RMB294.6 million, representing a decrease of approximately 38.3% from approximately RMB477.7 million in 2013. The decrease was primarily attributable to the slowdown of the economy in China and the change in the business model of the traditional trade channel by allowing a discount to the distributors for covering the selling expenses for Bawang branded products whereby such business model contributed to the saving in selling and distribution costs and hence improved the operating result.

The Group's core brand, Bawang, generated approximately RMB229.2 million in revenue, which accounted for approximately 77.8% of the Group's total revenue of continuing operations in 2014, and represented a decrease of approximately 29.1% as compared to 2013.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind, generated approximately RMB32.8 million in revenue, which accounted for approximately 11.1% of the Group's total revenue of continuing operations in 2014, and represented a decrease of approximately 59.3% as compared to 2013.

The natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated approximately RMB18.5 million in revenue, which accounted for approximately 6.3% of the Group's total revenue of continuing operations in 2014, and represented a decrease of approximately 52.7% as compared to 2013.

The branded Chinese herbal skincare series, Herborn, generated approximately RMB11.0 million in revenue, which accounted for approximately 3.7% of the Group's total revenue of continuing operations in 2014, and represented a decrease of approximately 66.3% as compared to 2013.

Smerry generated approximately RMB3.1 million in revenue, which accounted for approximately 1.1% of the Group's total revenue of continuing operations in 2014.

We sold our products through extensive distribution and retail networks. During the year under review, sales to our distributors and retailers represented approximately 66.6% and approximately 33.4% of the Group's total revenue of continuing operations respectively.

In 2014, our products were sold in Hong Kong, Singapore, Thailand, Malaysia and Indonesia. The sales to these markets outside China accounted for approximately 5.3% of our total revenue of continuing operations for 2014.

***Cost of Sales***

Cost of sales for 2014 amounted to approximately RMB184.4 million, representing a decrease of approximately 25.1% compared to approximately RMB246.1 million for 2013. Such decrease was mainly due to the decrease in direct labour, raw materials and package materials consumed, partially offset by higher fixed costs such as rental and depreciation.

***Gross Profit***

During the year under review, the Group's gross profit decreased to approximately RMB110.2 million, representing a decrease of approximately 52.4% as compared to approximately RMB231.6 million for 2013. The gross profit margin decreased from approximately 48.5% for 2013 to 37.4% for 2014. Such decrease was mainly attributable to the decrease of revenue and the change in the business model of the traditional trade channel as mentioned above, which was partially offset by the decrease in cost of sales.

***Selling and Distribution Costs***

Selling and distribution costs decreased to approximately RMB144.5 million for 2014, representing a decrease of approximately 51.0% as compared to that for 2013. Such decrease was mainly due to the effective cost controls leading to the decrease in depreciation, advertising fee and the saving achieved in promotion fee and salary through optimising the resources of promotion staff. As a percentage of revenue, our selling and distribution costs decreased from approximately 61.8% in 2013 to 49.1% in 2014.

***Administrative Expenses***

Administrative expenses for 2014 amounted to approximately RMB37.8 million, representing a decrease of approximately 35.5% as compared to approximately RMB58.6 million in 2013. Such reduction was mainly due to the decrease in amortization of share option cost, depreciation, training fee, non-capitalisable research and development expenditures, salary and remuneration payments, which was partially offset by the increase in legal and professional fees. As a percentage of revenue, our administration costs were approximately 12.8% and 12.3% in 2014 and 2013 respectively.

***Loss from Operations***

The Group recorded reduced operating loss for the continuing operations of approximately RMB113.7 million for 2014, as compared to the operating loss of approximately RMB136.2 million for 2013. The decrease in operating loss for the continuing operations was mainly because of the various cost optimization measures persistently adopted by the Group resulting in a decrease in selling, distribution and administration costs of approximately RMB171.3 million for the year ended 31 December 2014, as compared to those of 2013. However, such decrease was partially offset by the impairment loss of assets of approximately RMB28.4 million (2013: approximately RMB17.1 million) following a valuation of the property, plant and equipment in use in the continuing operations, by reference to their value in use.

***Taxation***

The Group did not have any income tax in 2013 and 2014.

***Loss for the Year from Continuing Operations***

As a result of the combined effect of the above mentioned factors, the Group recorded reduced loss of approximately RMB115.5 million for 2014, as compared to the loss of approximately RMB136.9 million for 2013.

### Discontinued Operation

During the year under review, no revenue was attributable to the Group's Herbal tea products and this business segment recorded an operating loss of approximately RMB0.9 million. As a result of the unsatisfactory financial performance of the business of the herbal tea products, the Board decided to discontinue the production and sales of its herbal tea products with effect from 1 July 2013. Since then, the Group has been able to focus on the business development of the hair-care and skin-care products.

### Loss for the Year Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded an improved attributable loss of approximately RMB116.5 million for 2014, as compared with the attributable loss of approximately RMB143.5 million for 2013.

### Event after the Reporting Period

On 31 March 2015, an additional amount of HK$40.0 million (equivalent to approximately RMB31.7 million) was advanced to the Group by the shareholders. The loan is unsecured, interest free and repayable by 30 March 2016 or earlier as determined by the Group.

## OUTLOOK

To attain a more sustainable economic growth in the long run, China is undergoing a structural transformation from an investment-driven economy to one that is based on, among others, domestic consumption. Consequently, China's economic structure, growth drivers and industry developments have all been subject to considerable change and challenge. Because of the uncertainties during this transitional stage, China experienced a relatively mild pace of economic growth rate of 7.4% in 2014. The Directors believe that the Chinese government would gear its economic stimulus package towards a continuous and sustainable economic growth in China. The Group will adopt a prudent approach in revamping its business development model, which could enable the Group to sustain the stability of its business and to maintain a mild growth pattern.

Now that the Group has successfully streamlined its operations and optimized its operating costs, the Group will strive to regain the sales growth momentum and profitability by launching new and/or enhanced products series, and to develop new marketing channels. We will make every effort to strengthen our corporate image and the confidence of our customers in our products. The Group will carry out marketing campaigns for the "Bawang" brand name along the central theme that the Group continues to rank the first in the Chinese herbal shampoo products for a consecutive period of seven years. To foster a customer belief in the quality of our products, the Group would promote and enhance the transparency in its production process through arrangement of regular visits to the production complex by government officials, media, students, and selected groups of consumers.

In line with the rapid development of electronic commerce, more and more consumers would like to do their shopping through online sales platform which has even become habitual to many consumers. The change in buying behavior from shopping at physical stores to online shopping has caused considerable challenges to the traditional retailing channel. To turn the challenges into opportunities arising from this consumer behavioral change, the Group has started establishing online flagship shops for our Bawang, Royal Wind and Herborn branded products at a number of well-known and popular online retailing platforms in China such as Taobao tmall(天貓), JD(京東) and 1mall(1號店). To enhance the revenue stream, the Group intends to roll out a new series of HPC products this year which satisfy the needs of online consumers and to expand this channel by signing up more popular online platforms.

For the two branded shampoo and hair-care products, namely, Bawang and Royal Wind, the Bawang branded products target the mass market and the Royal Wind brand products are designed for a group of younger consumers. Though each of branded products has respective functionalities of its own and each of them targets different market segments, both of them are leveraging the Group's unique renowned traditional Chinese medicine family background with its core competence in making Chinese herbal-based hair-care products.

For Bawang branded products, the Group intends to enhance its product offerings with different concepts which satisfy the needs of the various consumer segments. Apart from launching new products, the Group will enhance and repackage some of the existing product series in order to retain the existing consumers and to attract new users at the same time. Additionally, the Group will strive to sell the products through online platform so as to enhance the revenue stream.

For Royal Wind branded products, the Group will continue to enhance the brand recognition and image through advertising and publicity campaigns. The Group plans to roll out a promotion slogan known as "Royal Wind: Natural Carefree Anti-dandruff in an Easy Way (天然追風，去屑輕鬆)". In line with this theme, the Group intends to launch a new Royal Wind natural product series, which do not contain silicones. To cope with the lifestyle of the young consumers, the Group will place emphasis on the commercials of the branded shampoo through popular and interactive social media such as the Internet, smart phone messaging and micro-blogging in additional to the traditional media. The Group will continue to expand new channels for supplying the products to hotel chains.

For Herborn branded products, the Group will streamline and enhance its skincare product series with the objective to increase the revenue contribution. The Group will expand the sales network by establishing more sales counters inside cosmetic specialty shops and expand new channels through beauty salons. In addition, the Group will enhance its efforts through Internet sales channel.

For Litao branded products with the product imagine focusing on natural and healthy household care products, the Group will roll out a brand new product series of Chinese herbal based laundry detergent and softener to the Hong Kong market. At the same time, the Group will expand the sales network for the refreshing laundry detergent and softeners and plant-oil based shower-gels in China. As Litao products are principally sold through traditional sales channels in the second-tier or third-tier cities in China, such expansion does not need to incur significant selling and distribution costs.

For Smerry branded natural plant skincare products, the Group will strengthen sales and promotional efforts to expand the network of chain stores and further increase same store sales. As Smerry products are sold through an established network of chain stores, such expansion does not need to incur significant selling expenses.

For production management, the Group will enhance the profitability of the production facilities by expanding the coverage of the performance measurement system "independent profit centre" to the entire production plant. To eliminate the spoilage among production lines, the Group will enhance the material synchronization system. To improve the quality of work-life balance of frontline workers, the Group will increase the frontline workers' awareness of occupational health and safety, to improve the recreational facilities in the dormitory, and to carry out social activities for workers. The Directors believe that the combined effect of these motivational efforts would inspire the workers towards a proactive working attitude thereby enhancing productivity.

As part of the business expansion plan, the Group will continue to explore with potential distributors the possibility of launching our branded products in other countries. The Group is open to explore further business opportunities with potential overseas distributors.

As of the date of this announcement, the Group does not have any business acquisition opportunity on hand, nor explore actively business opportunities that may involve potential acquisition.

Looking forward, we focus on two areas to drive the strategic directions to sustain and develop our business in the midst of a volatile business environment. In the short run, the Group intends to continue building up a management team with strong experience in both domestic and global HPC sectors, to regain the sales growth momentum and profitability, and to improve investors' confidence on the Group. In the long run, the Group will continue to focus on strengthening the business model and positioning to acquire market shares from domestic and international competitors, maintaining a multi-brand and multi-product strategy in HPC sectors, and becoming a leader in the branded Chinese herbal HPC products.

## 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 2014** *RMB in million* | 31 December 2013 *RMB in million* |
|---|---|---|
| Cash and cash equivalent | **16.9** | 43.3 |
| Total loans | **44.1** | — |
| Total assets | **383.1** | 490.3 |
| The gearing ratio[1] | **11.5%** | — |

*Note:*

1. Calculate as total loans divided by total assets

## MATERIAL ACQUISITION AND DISPOSAL

The Group did not engage in any material acquisitions or disposal of any of its subsidiaries or associate during the year under review.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in China, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. During the year under review, the Group had exported its goods to Hong Kong and certain overseas 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 Renminbi. 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 Renminbi and thus the exchange risk at the Group's operational level is not significant. As at 31 December 2014, 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 are prepared to take prudent measures such as hedging when required.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014.

## CAPITAL COMMITMENT

As of 31 December 2014, the capital commitment of the Group amounted to approximately RMB8.2 million.

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

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

## CHANGE OF DIRECTORS

On 30 June 2014, Mr. CHEN Kaizhi resigned as the independent non-executive Director and member of audit committee, remuneration committee and nomination committee of the Company.

On 20 October 2014, Mr. CHEN Zheng He has been appointed as an executive Director of the Company and Dr. NGAI Wai Fung has been appointed as the member of the nomination committee and remuneration committee of the Board.

On 13 November 2014, Mr. CHEUNG Kin Wing has been appointed as an independent non-executive director and a member of the audit committee of the Company.

## THE CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

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 Board is of the view that the Company has complied with the principles and applicable code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the year ended 31 December 2014 save as disclosed below.

Following the resignation of Mr. CHEN Kaizhi, the Board comprised five Directors and of which two were independent non-executive Directors as of 30 June 2014, thus fell below the following requirements under the Listing Rules:

According to Rule 3.10(1) of the Listing Rules, the Company must appoint at least three independent non-executive directors. The Board had two independent non-executive Directors at that time, and thus fell below such requirement.

According to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members. The audit committee of the Board comprised two members at that time and thus fell below such requirement.

According to Rule 3.25 of the Listing Rules, the remuneration committee must comprise a majority of independent non-executive directors. The remuneration committee of the Board comprised two members at that time, of which only one is independent non-executive Director and thus fell below such requirement.

According to Code Provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules, the nomination committee should comprise a majority of independent non-executive directors. The nomination committee of the Board comprised two members at that time, of which only one is independent non-executive Director and thus fell below such requirement.

Following the appointment of Dr. NGAI Wai Fung, the Company has complied with Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules.

Following the appointment of Mr. CHEUNG Kin Wing, the Company has complied with Rules 3.10(1) and 3.21 of the Listing Rules.

## 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 Listing Rules. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2014 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 2014.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 27 May 2015 to Friday, 29 May 2015 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting (the "**Annual General Meeting**"), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 May 2015.

The annual general meeting of the Company will be held on Friday, 29 May 2015. 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.hkexnews.com.hk). The annual report for the year ended 31 December 2014 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, 31 March 2015

*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. CHEN Zheng He and Mr. WONG Sin Yung and three independent non-executive directors, namely, Dr. NGAI Wai Fung, Mr. LI Bida and Mr. CHEUNG Kin Wing.*