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 2017

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2017 together with the comparative figures of the year ended 31 December 2016.

The Board refers to the profit warning announcement of the Company dated 2 March 2018. The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2017:

Total revenue of the Group was approximately RMB264.2 million, which remained relatively stable as compared with 2016.

Operating profit of the Group was approximately RMB19.7 million, as compared with an operating profit of RMB42.6 million for 2016.

Net profit was approximately RMB19.2 million, as compared with a net profit of approximately RMB43.7 million for 2016.

Profit attributable to owners of the Company dropped to approximately RMB19.2 million as compared with the profit attributable to owners of the Company of approximately RMB43.7 million for 2016.

Earnings per share (Basic and diluted) was approximately RMB0.6081 cents and RMB0.6080 cents per share respectively.

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 AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	3	**264,215**	264,229
Cost of sales		**(136,902)**	(137,699)
Gross profit		**127,313**	126,530
Other income	4	**14,162**	28,001
Changes in fair value less costs to sell in respect of biological assets		**—**	29
Selling and distribution costs		**(93,726)**	(80,080)
Administrative expenses		**(27,866)**	(30,458)
Other expenses		**(157)**	(1,455)
Finance costs	5	**(495)**	(1,473)
Profit before taxation		**19,231**	41,094
Taxation	6	**(4)**	2,610
Profit for the year attributable to owners of the Company	7	**19,227**	43,704
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**477**	(1,740)
Profit and total comprehensive income for the year attributable to owners of the Company		**19,704**	41,964

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2017

	Notes	**2017**	2016
Earnings per share	*9*		
Basic		**RMB0.6081 cents**	RMB1.4292 cents
Diluted		**RMB0.6080 cents**	RMB1.4289 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017** **RMB'000**	2016 *RMB'000*
Non-current asset			
Property, plant and equipment	*10*	**132,403**	137,237
Current assets			
Inventories		**47,581**	41,827
Biological assets		**—**	457
Trade and other receivables	*11*	**45,458**	65,584
Amounts due from related parties		**6,947**	8,075
Pledged bank deposits		**—**	10
Deposit with bank		**20,000**	20,000
Bank balances and cash		**46,050**	22,312
		166,036	158,265
Current liabilities			
Trade and other payables	*12*	**117,439**	127,121
Amounts due to related parties		**1,346**	660
Bank borrowings		**—**	5,610
Income tax payables		**9,070**	9,066
Provisions		**338**	2,503
		128,193	144,960
Net current assets		**37,843**	13,305
Net assets		**170,246**	150,542
Capital and reserves			
Share capital		**277,878**	277,878
Reserves		**(107,632)**	(127,336)
Total equity		**170,246**	150,542

NOTES:

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 owned as to: (1) 49.57% by Heroic Hour Limited, a company that is beneficially owned as to 22.00% by Mr. CHEN Zheng He, the chief executive officer and an executive director of the Company, and 78.00% by Mr. CHEN Zheng He's six brothers and sisters; (2) 25.72% by Mr. CHEN Qiyuan, the Chairman of the board of directors of the Company (the "**Directors**"); and (3) 24.71% by Ms. WAN Yuhua, a former director and the former 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 Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, 510450, the People's Republic of China (the "**PRC**").

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are manufacturing and sales of the household and personal care products.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the functional currency of the primary economic environment in which the principal subsidiaries of the Group operate in the PRC.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

In the current year, the Group has applied the following new and revised IFRSs, which include IFRSs, International Accounting Standards ("**IAS(s)**"), amendments and interpretations ("**Int(s)**") issued by the International Accounting Standards Board (the "**IASB**") and the IFRS Interpretations Committee ("**IFRIC**") of the IASB.

Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

Amendments to IAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to IAS 7 has resulted in additional disclosures on the Group's financing activities, especially a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods. Apart from the additional disclosure, the Directors considered that these amendments have had no impact on the Group's consolidated financial statements.

New and revised IFRSs issued but not yet effective

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

IFRS 9 (2014)	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfer of Investment Property[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective date not yet been determined.

3. REVENUE AND SEGMENT INFORMATION

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

Information reported to the Executive Directors, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on a mixture of product lines and geography. The Directors of the Company have chosen to organise the Group around differences in products. 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 CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments are as follows:

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

Also, the CODM is provided with segment information concerning segment revenue and result. Segment assets and liabilities are not reported to the CODM regularly.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	Hair-care products		Skin-care products		Other household and personal care products		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sales to external customers	**233,067**	215,638	**5,197**	13,276	**25,951**	35,315	**264,215**	264,229
Segment profit/(loss)	**21,200**	30,571	**645**	2,430	**(5,941)**	(8,489)	**15,904**	24,512
Changes in fair value less costs to sell in respect of biological assets							**—**	29
Bank interest income							**379**	406
Other income							**8,647**	23,512
Corporate and other unallocated expenses							**(5,204)**	(5,892)
Finance costs							**(495)**	(1,473)
Profit before taxation							**19,231**	41,094

Other segment information

	Hair-care products		Skin-care products		Other household and personal care products		Unallocated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Amounts included in the measure of segment results										
Additions to non-current assets	**10,971**	1,287	**249**	78	**1,247**	204	**—**	—	**12,467**	1,569
Depreciation of property, plant and equipment	**14,887**	8,470	**338**	612	**1,692**	2,656	**242**	160	**17,159**	11,898
Loss on disposals of property, plant and equipment	**34**	396	**—**	24	**—**	65	**—**	970	**34**	1,455
(Reversal of)/impairment loss recognised in respect of trade receivables	**(4,520)**	1,979	**(102)**	122	**(514)**	324	**—**	—	**(5,136)**	2,425
Reversal of allowance for inventories	**—**	(202)	**—**	(17)	**—**	(24)	**—**	—	**—**	(243)
Allowance for inventories	**99**	1,016	**2**	75	**11**	336	**—**	—	**112**	1,427
Obsolete inventories written-off	**1,059**	860	**247**	463	**2,064**	1,170	**—**	—	**3,370**	2,493

Geographical information

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

The geographical locations of customers are based on the location at which the goods are delivered. The geographical location of the non-current assets is based on the physical location of the assets, in the case of property, plant and equipment.

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (country of domicile)	**255,634**	257,263	**131,751**	136,247
Hong Kong	**4,395**	4,813	**652**	990
Singapore	**635**	505	**—**	—
Thailand	**1,862**	551	**—**	—
Malaysia	**1,021**	1,097	**—**	—
Venezuela	**668**	—	**—**	—
Total	**264,215**	264,229	**132,403**	137,237

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the Group's revenue is as follow:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**N/A[2]**	28,889[1]

1 Revenue was derived from hair-care products and other household and personal care products.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Bank interest income	**379**	406
Gain on sales of scrap materials	**959**	598
Government grants *(note a)*	**2,741**	2,811
Net foreign exchange gains	**—**	810
Recovery from litigation claims *(note b)*	**—**	18,815
Reversal of impairment loss recognised in respect of trade receivables	**5,136**	—
Write-back of trade and other payables	**4,947**	—
Write-back of payables for property, plant and equipment	**—**	4,083
Others	**—**	478
	14,162	28,001

Notes

(a) Included in the amount of government grants recognised during the year ended 31 December 2017 of approximately RMB2,741,000 (2016: approximately RMB2,811,000) were received from the PRC government in respect of certain research projects, electronic shopping platform projects and export encourage scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for both years.

(b) During the year ended 31 December 2016, claims against other parties in respect of malicious falsehood by a media company and unsatisfactory performance of plant and machineries by a supplier were settled and amounts of approximately RMB18,646,000 and RMB169,000 were recovered by the Group respectively.

5. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Imputed interest on non-interest bearing loans from controlling shareholders	**—**	1,473
Interest on bank borrowings	**495**	—
	495	1,473

6. TAXATION

	2017	2016
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
— Current year	**4**	—
Hong Kong Profit Tax		
— Over provision in prior years	**—**	(579)
	4	(579)
Deferred tax:		
— Current year	**—**	(2,031)
Income tax expense (credit)	**4**	(2,610)

(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 2018. However, Bawang Guangzhou did not have any assessable profits subject to EIT for the years ended 31 December 2017 and 2016.

(b) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both of 2017 and 2016 years. No provision for Hong Kong Profits Tax has been provided for the years ended 31 December 2017 and 2016 as the Group does not have any assessable profits subject to Hong Kong Profits Tax.

(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.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2017	2016
	RMB'000	*RMB'000*
Auditor's remuneration	**1,025**	938
Allowance for inventories (included in cost of inventories recognised as an expense above)	**112**	1,427
Cost of inventories recognised as an expense *(note (a))*	**136,902**	137,699
Depreciation of property, plant and equipment	**17,159**	11,898
(Reversal of)/impairment loss recognised in respect of trade receivables	**(5,136)**	2,425
Loss on disposals of property, plant and equipment	**34**	1,455
Net foreign exchange losses	**1,679**	—
Provision for litigation (included in administrative expenses)	**—**	722
Research and development costs recognised as an expense	**10,794**	10,130
Reversal of allowance for inventories (included in cost of inventories recognised as an expense above)	**—**	(243)
Staff costs *(note (b))*	**53,013**	48,133
Obsolete inventories written-off (included in cost of inventories recognised as an expense above)	**3,370**	2,493

Notes:

(a) Cost of inventories recognised as an expense included depreciation of property, plant and equipment and staff costs of approximately RMB14,898,000 (2016: RMB10,695,000) and RMB15,637,000 (2016: RMB13,675,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) Staff costs included redundancy costs of RMB377,000 for the year ended 31 December 2016 (2017: Nil).

8. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2017 (2016: Nil), nor has any dividend been proposed since the end of the reporting period (2016: Nil).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**19,227**	43,704

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,161,811**	3,057,986
Effect of dilutive potential ordinary shares:		
Share options	**445**	499
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,162,256**	3,058,485

The numerators used are the same as those detailed above for both basic and diluted earnings per share.

10. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2016, buildings with carrying values of approximately RMB3,927,000 (2017: Nil) were pledged to secure banking facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**48,321**	56,288
Less: allowance for impairment of trade receivables	**(6,810)**	(11,946)
	41,511	44,342
Prepayment for purchase of raw materials	**1,628**	1,516
Short-term prepaid advertising fee	**392**	212
Litigation costs receivable *(note 13)*	**—**	16,101
Other receivables	**1,927**	3,413
	45,458	65,584

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 allowance for impairment) based on the invoice date at the end of the reporting period.

	2017	2016
	RMB'000	*RMB'000*
Less than 3 months	**29,920**	23,952
More than 3 months but less than 6 months	**10,438**	11,203
More than 6 months but less than 12 months	**1,153**	2,249
More than 12 months	**—**	6,938
	41,511	44,342

12. TRADE AND OTHER PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 month or on demand	**23,663**	25,540
After 1 month but within 3 months	**6,864**	8,106
	30,527	33,646

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.

13. LITIGATIONS

The Directors considered 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. The trial of the legal proceedings was completed on 29 August 2015. On 23 May 2016, the Group received the final judgment handed down by the Court of First Instance of the High Court of Hong Kong in respect of the legal proceedings and the Group won the Legal Proceedings. According to the final judgment the media company was ordered by the High Court of Hong Kong to pay the Group, general damages for libel in an aggregate amount of approximately HK$3,005,000 (the "**Damages**"). The High Court of Hong Kong also made a costs order nisi that Next Magazine should pay to the Group 80% of the legal costs of the Company and Bawang Guangzhou in respect of the Legal Proceedings (the "**Costs**"). On 16 December 2016, the Court of First Instance made an order by consent of the parties that in lieu of taxation of the costs of the action, the Defendant do pay the Plaintiffs the sum of HK$18,000,000 (inclusive of interest and the cost of taxation) (equivalent of approximately RMB16,101,000) in full and final settlement of the Costs payable by the Defendant to the Plaintiffs in the action pursuant to the above. The Damages was received by the Group during the year ended 31 December 2016. On 25 January 2017, the Group received the Costs of HK$18,000,000 (equivalent to approximately RMB16,101,000).

The Damages and the Costs were recognised as other income for the year ended 31 December 2016.

BUSINESS REVIEW

The Directors report that the total revenue of the Group for the year ended 31 December 2017 was approximately RMB264.2 million, which remained relatively stable as compared with 2016. The operating profit of the Group for the year ended 31 December 2017 was approximately RMB19.7 million as compared with an operating profit of approximately RMB42.6 million in 2016.

For the year ended 31 December 2017, the net profit of the Group was approximately RMB19.2 million, as compared with a net profit of approximately RMB43.7 million in 2016.

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 operate under the value-chain-oriented business model, which enabled the Group to reduce the cost of sales and administration expenses for the year ended 31 December 2017.

To kick-start the corporate operational theme of the year "To quantify with performance following the precise execution of plans", a national distributors' meeting was held in January 2017 in Guangzhou to introduce the new Bawang haircare products, to explain the Group's investments in brand building and expansion of channels, and to demonstrate the upcoming marketing campaigns and publicity programs for the year. The incentive leisure travel scheme for participating distributors and internal staff members has been implemented since 2015. The Directors believe that the scheme has motivated the distributors and sales teams to accomplish the sales targets. The Group will therefore continue to offer free travel awards to those who complete the predetermined sales target for a specified period.

In May 2017, the Group participated in the China Beauty Expo in Shanghai, which is one of the key cosmetic industry events in China. The expo provided a platform for the Group to promote its various branded products in an international arena, to get hold of the latest developments and trends in the cosmetic industry in China and to explore business opportunities with potential partners and distributors. Additionally, the Group participated in the cosmetic industry trade fairs in Xian and Lanzhou, which were held in July and October 2017 respectively. These two trade fairs provided an opportunity for the sales teams to expand the distribution channels in the Group's newly-developed markets of north-western region of China. To optimise the resources to enhance the brand image, the sales teams of the Group's other branded products also tagged along to join the beauty expo and trade fairs for recruiting distributors for their brands.

To enhance the sales of Bawang branded products, extensive in-store promotional campaigns, which included Chinese herbal hair-care coaching sessions, were carried out on various festive days throughout the year.

On the International Children's Day on 1 June 2017, a joint promotional program jointly held by the Group and a popular animated character "Superwing" was carried out at the stores to enhance the brand image of "Little King", which is our branded personal and skin care product series for children. To enhance sales revenue, childcare tutorials were held for the young mothers to promote the concepts of Chinese herbal childcare products. To make good use of the sales opportunities, haircare assessments and treatments were conducted for the mothers at the same time. A WeChat network for subsequent discussions on the questions about childcare and haircare between the sales teams and the customers has been established to promote the brand awareness and functionality of our branded products.

As at 31 December 2017, the Bawang brand distribution network comprised approximately 674 distributors and 21 KA retailers, covering 27 provinces and four municipalities in China. Furthermore, the Bawang branded products were also sold in Hong Kong, Singapore, Thailand, Malaysia and Venezuela.

During the year under review, the Group rolled out new Royal Wind branded shampoo products with the marketing theme "Let's chase for the wind rather than wait for the wind" primarily for the online sales channel. As at 31 December 2017, the Royal Wind brand distribution network comprised approximately 674 distributors and 20 KA retailers, covering 27 provinces and four municipalities in China.

The Litao products mainly comprise shower gels and laundry detergents, which target consumers living in the second-tier or third-tier cities in China. The Group's goal is to widen the market coverage in China. A natural fruit shower gel series was rolled out during the year under review. As at 31 December 2017, the Litao products distribution network comprised approximately 674 distributors and two KA retailers, covering 27 provinces and four municipalities in China.

The Herborn Chinese herbal skincare product series targets white-collar ladies in the age range from 25 to 45 who have relatively high net incomes and who are dedicated to pursue a healthy and natural lifestyle. As at 31 December 2017, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 93 distributors and one KA retailer covering 27 provinces and four municipalities in China. Apart from these traditional sales channels, the Group had about 960 counters in cosmetics specialty shops as at 31 December 2017.

During the year under review, the Group has established online flagship stores for our Bawang, Royal Wind and Herborn branded products on 12 online retailing platforms in China.

For the year under review, we obtained and/or renewed and/or possessed the certificates and/or recognitions as follows:

— we were listed among the "Leading Brands of China" (中國好品牌) of the 22nd China Beauty Expo, which was granted by the China Beauty Expo;

— our Chinese herbal skincare series shampoo and hair care products and shower gel products were both recognised as "Innovative Products of Guangdong" (廣東省高新技術產品) by the Guangdong New Hi-tech Enterprise Association in December 2017 for a period of three years until the end of 2020;

— the Group was awarded the "2017 Innovative Marketing Enterprise of China's Fashion Industry Award" and the "2017 Consumer's Most Trusted Brand of China's Trendy Industry Award" by Xinxi News* (信息時報);

— we were awarded as one of the "2017 Top Ten Weibo Enterprises (Guangdong)" at the 2018 "Beyond Influential" Guangdong Sina Weibo Festival (2018超粵影響力新浪廣東微博盛典);

— we were awarded the "7th Entertainment Marketing 5S Gold Award — Sales Performance Award" by The Advertiser (廣告王);

— Bawang's brand was also listed among "China's Classic Brand Stories" by the China Publication Group Company* (中國出版集團公司);

— we have renewed the permit for production of cosmetic products, which was issued by the Guangdong Provincial Food & Drug Administration and is valid until May 2021; and

— three Bawang branded series shampoos have been recognised as "The 2015 New High-Tech Products in Guangdong" by the Guangdong Provincial Bureau of Science & Technology for a period of three years until the end of 2018.

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue from operations amounted to approximately RMB264.2 million, which remained relatively stable as compared with 2016. The revenue through the online sales channel had a substantial increase of approximately 235.5% as compared to 2016, but such increase was offset by the decrease in the aggregate revenue generated from the traditional sales channels.

The Group's core brand, Bawang, generated approximately RMB229.4 million in revenue, which accounted for approximately 86.8% of the Group's total revenue by product category in 2017, and represented an increase of approximately 10.6% as compared with 2016.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind, generated approximately RMB14.7 million in revenue, which accounted for approximately 5.6% of the Group's total revenue by product category in 2017, and represented a decrease of approximately 32.9% as compared with 2016.

The natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated approximately RMB12.3 million in revenue, which accounted for approximately 4.7% of the Group's total revenue by product category in 2017, and represented a decrease of approximately 38.2% as compared with 2016.

The branded Chinese herbal skincare series, Herborn, generated approximately RMB5.2 million in revenue, which accounted for approximately 2.0% of the Group's total revenue by product category in 2017, and represented a decrease of approximately 60.6% as compared with 2016.

We sold our products through extensive distribution and retail networks. During the year under review, sales to our distributors and retailers represented approximately 80.6% and approximately 19.4% of the Group's total revenue from operations respectively.

In 2017, our products were also sold in Hong Kong, Singapore, Thailand, Malaysia and Venezuela. The sales to these overseas markets outside mainland China accounted for approximately 3.2% of our total revenue in 2017.

Cost of Sales

Cost of sales in 2017 amounted to approximately RMB136.9 million, representing a decrease of approximately 0.6% compared with approximately RMB137.7 million in 2016. Such decrease was mainly due to the decrease in manufacturing expenses, which was partially offset by the increase in the costs of raw materials and packaging materials consumed, and direct labour expenses.

Gross Profit

During the year under review, the Group's gross profit increased to approximately RMB127.3 million, representing an increase of approximately 0.6% as compared with approximately RMB126.5 million for 2016. The gross profit margin increased from approximately 47.9% for 2016 to approximately 48.2% for 2017. Such increase was mainly attributable to the decrease in cost of sales and the roll-out of new high-margin products during the year under review.

Selling and Distribution Costs

Selling and distribution costs increased to approximately RMB93.7 million for 2017, representing an increase of approximately 17.0% as compared to that for 2016. Such increase was mainly due to the increase in advertising expenses for brand building in various online sales platforms and the increase in product delivery expenses that resulted from the substantial increase in sales volume through online sales channel in 2017, but such increase was partially offset by the decrease in promotion and distributors meeting expenses. As a percentage of revenue, our selling and distribution costs increased from approximately 30.3% in 2016 to 35.5% in 2017.

Administrative Expenses

Administrative expenses for 2017 amounted to approximately RMB27.9 million, representing a decrease of approximately 8.5% as compared with approximately RMB30.5 million in 2016. Such decrease was mainly due to the decreases in provision for bad debts, staff meeting expenses, and postal and communication expenses. As a percentage of revenue, our administration costs were approximately 10.5% and 11.5% in 2017 and 2016 respectively.

Profit from Operations

The Group recorded an operating profit of approximately RMB19.7 million for 2017, as compared with an operating profit of approximately RMB42.6 million for 2016. The decrease in operating profit was mainly because of (1) a much lower level of other income, which during year ended 31 December 2016 included the one-off amount that was recovered from a litigation claim, (2) the increase in the costs of packaging materials and direct labour expenses, and (3) the increase in the Group's raw materials and selling and distribution costs.

Finance Costs

For the year ended 31 December 2017, interest on bank borrowings amounted to approximately RMB0.5 million (2016: Nil), and there was no imputed interest on non-interest bearing loans from controlling shareholders in 2017 (2016: approximately RMB1.5 million).

Taxation

During the year ended 31 December 2017, the Group's income tax expense was approximately RMB4,000 (2016: Nil). A write-back of the excess of previous years' provision for the Enterprise Income Tax of China and deferred tax in an aggregate amount of approximately RMB2.6 million was credited to the taxation account for 2016.

Profit for the Year

As a result of the combined effect of the above mentioned factors, the Group recorded a profit of approximately RMB19.2 million for 2017, as compared with a profit of approximately RMB43.7 million for 2016.

Profit for the Year Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded a profit attributable to owners of the Company of approximately RMB19.2 million for 2017, as compared with a profit attributable to owners of the Company of approximately RMB43.7 million for 2016.

OUTLOOK

The International Monetary Fund expects China's gross domestic product ("**GDP**") growth to stand at approximately 6.6% in 2018. Some economists have different expectations, which range from approximately 6.4% to approximately 6.7%. According to Reuters, China is expected to maintain a GDP growth rate of around 6.5% in 2018. The economy is expected to grow moderately in China.

China's GDP grew by approximately 6.9% in 2017, which was 0.2 percentage point higher than its initial target. The moderate growth target for 2018 suggests that the government is cautious about the downside risks to the Chinese economy that are driven by external factors that may be caused by the US interest rate hikes and tax cuts, restrictive trade policies in developed economies, and geographical tensions; and internally driven by factors such as the uncertainty around housing prices.

However, some economists are of the view that China is transitioning to a slower and more sustainable economic model, which makes them optimistic about the Chinese economy in 2018 and even beyond. The Directors are also optimistic about the future of the Chinese economy.

The corporate theme for 2018 is "The King is Back; Result is King." The Group will strive to maintain the sales growth momentum so as to keep the business profitable. In addition, the Group intends to demonstrate its confidence and determination to the people in the healthcare industry, and to cooperate with its distributors and retailers in revitalising the Bawang brand name. The corporate goal will be aligned in accordance with its targeted results. In this connection, the Group will allocate sufficient resources and supporting services to the sales teams to facilitate their accomplishment of the organisational goal to the fullest extent.

For Bawang branded product series, we will design specific sales promotion programs in the supermarkets for each festival during the year, whereby assorted branded products of the Group will be bundled together for sale as a way of attracting customers and increasing sales. High-end herbal essence hair care bundled products would be rolled out in order to satisfy the needs of the affluent consumer segment. New hair care product series with animated characters known as "Herbal Fairies" will be launched targeting towards young customers between 20 and 30 years old, who choose to use products that are made domestically. The Group will continue to expand the cooperation with those distributors who have obtained an exclusive right to sell household and personal care ("**HPC**") products in dedicated areas inside contracted supermarkets. The Group may also engage young and emerging Internet celebrities in promoting the Bawang brand to their followers on the Internet and broadening the Group's customer base.

As for the Little King branded children's product series, which is still in its developmental stage, the Group will work on the brand-building process and develop both the traditional as well as online sales channels. To enhance the brand recognition, Chinese herbal childcare concept briefings will be carried out together with in-store sales promotion campaigns.

For Royal Wind branded product series, the Group intends to re-package this product series and to roll-out this series mainly through the online sales channel.

For Herborn branded product series, owing to the allocation of internal resources, the Group intends to phase out this product series. The Group will strive to clear the existing inventory through its online sales channel and staff or group purchases.

For production management, in order to keep the customers satisfied with our products, our belief is that quality of product is of paramount importance. Our Group will concurrently set up benchmark controls to ensure operational efficiency and to operate our production centre in strict compliance with various guidelines and regulations such as industrial safety, environmental protection, and staff welfares. Efforts will be made to maintain the transparency of operations to enhance the consumers' confidence in the quality of our products.

As part of the business expansion plan, the Group will continue to explore the possibility with potential distributors for launching our branded products to 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 outstanding acquisition opportunity on hand, nor is actively exploring business opportunities that may involve potential acquisition. However, the Group is open to potential investment opportunities.

Looking forward, we plan to focus on two areas to drive the strategic directions to sustain and develop our business in the volatile economic 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 in 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 2017	31 December 2016
	RMB in million	*RMB in million*
Cash and cash equivalents	**46.1**	22.3
Total loans	**—**	5.6
Total assets	**298.4**	295.5
The gearing ratio[1]	**—**	1.9%

Note:

1. Calculate as total loans divided by total assets

MATERIAL ACQUISITION AND DISPOSAL

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND HEDGING

The operations of the Group are mainly carried out in China, with most transactions being 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 2017, 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 2017.

CAPITAL COMMITMENT

As at 31 December 2017, the capital commitment of the Group amounted to approximately RMB2.7 million.

CHARGE OF ASSETS

As at 31 December 2016, buildings with carrying values of approximately RMB3,927,000 (2017: Nil) were pledged to secure banking facilities granted to the Group.

TRADE AND OTHER PAYABLES

As at 31 December 2017, the trade and other payables of the Group was approximately RMB117.4 million (2016: RMB127.1 million). The decrease was primarily due to a significant decrease in promotion fee payables. For the two years ended 31 December 2017, trade and other payables did not include any balances due to related parties.

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.

PASSING AWAY OF A DIRECTOR

On 22 November 2017, Mr. LI Bida, an independent non-executive Director ("**INED**") of the Company, passed away and ceased to be an INED, the chairman of the remuneration committee and a member of the nomination committee and the audit and risk management committee.

As a result, as at 31 December 2017, the Company only had two INEDs, and the compositions of its Board, the audit and risk management committee, the remuneration committee and the nomination committee fall below the applicable requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong

Limited (the "**Listing Rules**") and/or the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**").

On 14 February 2018, Mr. CHEUNG Kin Wing, an INED of the Company has been appointed as the chairman of the remuneration committee and a member of the nomination committee of the Company. However, after such appointment, the Company only has two INEDs and two members of the audit and risk management committee, which falls below the applicable requirements under Rules 3.10(1) and 3.21 of the Listing Rules. The Company has applied to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rules 3.10(1) and 3.21 of the Listing Rules during the period from 22 February 2018 to 22 May 2018.

Notwithstanding the audit and risk management committee consists of only two INEDs, the Board considers that the current members of the audit and risk management committee, who are both professional accountants and are experienced in matters relating to auditing and/or accounting, risk management and internal control and also act as independent non-executive directors of other listed companies, continue to be well supported by the senior management of the Company to perform their duties (including in particular their review of the annual results of the Group for the year ended 31 December 2017 and the financial reporting process and risk management control systems of the Company).

The Company will endeavor to re-comply with Rules 3.10(1) and 3.21 of the Listing Rules as soon as possible.

THE CORPORATE GOVERNANCE CODE

The Company is committed to enhancing the corporate governance and internal control systems of the Group, and the Board reviews and updates all necessary measures in order to promote good corporate governance and effective internal control. Save as mentioned in this announcement, the Board is of the view that the Company has complied with the principles and applicable code provisions of the Corporate Governance Code during the year ended 31 December 2017.

According to code provision A.5.1 of the Corporate Governance Code, the nomination committee should comprise a majority of INEDs. During the period from 22 November 2017 and prior to the appointment of Mr. CHEUNG Kin Wing to the nomination committee on 14 February 2018, the Company did not comply with the said code provision. Such non-compliance was due to the passing-away of an INED, the time needed to identify suitable candidates who have appropriate expertise and who also satisfy the Company's board diversity policy to serve as an INED, the time needed to conduct the due diligence checks on and interviews with the potential INED candidates, and also the time needed to undertake the nomination and appointment procedures.

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 (except for Mr. LI Bida, who has passed away) have confirmed that they have complied with the required standard set out in the Model Code throughout the year under review.

AUDIT AND RISK MANAGEMENT COMMITTEE

The audit and risk management committee has reviewed the annual results of the Group for the year ended 31 December 2017 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 a final dividend in respect of the year ended 31 December 2017.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "**Annual General Meeting**") of the Company will be held on Friday, 1 June 2018. The register of members of the Company will be closed from Saturday, 26 May 2018 to Friday, 1 June 2018 (both days inclusive) for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming 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, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 25 May 2018.

A notice of the Annual General Meeting will be published and despatched to shareholders in accordance with the requirements under 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 of Hong Kong Limited (www.hkexnews.hk). The annual report for the year ended 31 December 2017 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 this opportunity 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 2018

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely, Mr. CHEN Qiyuan, Mr. CHEN Zheng He and Mr. WONG Sin Yung and two independent non-executive directors, namely, Dr. NGAI Wai Fung, and Mr. CHEUNG Kin Wing.