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 2018

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017.

The Board refers to the profit warning announcement of the Company dated 30 January 2019. The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2018:

Total revenue of the Group was approximately RMB293.9 million, representing an increase of approximately 11.2% from approximately RMB264.2 million for 2017.

Revenue from the online sales channel was approximately RMB160.4 million, representing a notable increase of 54.2% from approximately RMB104.0 million for 2017.

Operating loss of the Group was approximately RMB0.8 million, as compared with an operating profit of approximately RMB19.7 million for 2017.

Net loss was approximately RMB1.2 million, as compared with a net profit of approximately RMB19.2 million for 2017.

Loss attributable to owners of the Company was approximately RMB1.2 million, as compared with the profit attributable to owners of the Company of approximately RMB19.2 million for 2017.

Loss per share (Basic and diluted) was approximately RMB0.0378 cents and RMB0.0378 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 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	3	**293,922**	264,215
Cost of sales		**(156,425)**	(136,902)
Gross profit		**137,497**	127,313
Other income	4	**3,114**	14,162
Selling and distribution costs		**(113,360)**	(93,726)
Administrative expenses		**(25,838)**	(27,866)
Impairment loss recognised in respect of trade receivables		**(2,196)**	—
Other expenses		**(37)**	(157)
Finance costs	5	**(376)**	(495)
(Loss)/profit before taxation		**(1,196)**	19,231
Taxation	6	**—**	(4)
(Loss)/profit for the year attributable to owners of the Company	7	**(1,196)**	19,227
Other comprehensive (expense)/income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,784)**	477
(Loss)/profit and total comprehensive (loss)/profit for the year attributable to owners of the Company		**(2,980)**	19,704

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

For the year ended 31 December 2018

	Note	**2018**	2017
(Loss)/earnings per share	*9*		
Basic		**RMB(0.0378) cents**	RMB0.6081 cents
Diluted		**RMB(0.0378) cents**	RMB0.6080 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current asset			
Property, plant and equipment	*10*	**115,021**	132,403
Current assets			
Inventories		**39,610**	47,581
Right to returned goods asset		**2,392**	—
Trade and other receivables	*11*	**36,035**	45,458
Amounts due from related parties		**4,706**	6,947
Deposit with bank		**20,000**	20,000
Bank balances and cash		**65,483**	46,050
		168,226	166,036
Current liabilities			
Trade and other payables	*12*	**81,368**	117,439
Amounts due to related parties		**2,488**	1,346
Contract liabilities		**7,587**	—
Refund liabilities		**4,164**	—
Bank borrowing		**12,550**	—
Income tax payables		**9,070**	9,070
Provision		**338**	338
		117,565	128,193
Net current assets		**50,661**	37,843
Net assets		**165,682**	170,246
Capital and reserves			
Share capital		**277,878**	277,878
Reserves		**(112,196)**	(107,632)
Total equity		**165,682**	170,246

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 holding company is Fortune Station Limited ("**Fortune Station**"), 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**"). On 16 July 2018, Ms. WAN Yuhua had transferred her 24.71% equity interest in Fortune Station to Mr. CHEN Qiyuan.

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 Park, 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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to 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.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been summarised below. The application of other new and amendments to IFRSs in the current year has had no material effect on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of accumulated losses and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue*. Details are described below.

The transition to IFRS 15 had no significant impact on the accumulated losses at 1 January 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported as at 31 December 2017** *RMB'000*	**Impact on adoption of IFRS 15 — Reclassification** *RMB'000*	**Carrying amounts as restated as at 1 January 2018** *RMB'000*
Current assets				
Inventories	*(a)*	47,581	(9,306)	38,275
Right to returned goods asset	*(a)*	—	9,306	9,306
Current liabilities				
Trade and other payables	*(a)&(b)*	117,439	(32,982)	84,457
Refund liabilities	*(a)*	—	16,746	16,746
Contract liabilities	*(b)*	—	16,236	16,236

(a) The Group provides certain customers with a right to return the goods within a specified period, the Group previously estimated expected returns using a probability-weighted average amount approach similar to the expected value method under IFRS 15. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognised in the consolidated statement of financial position within trade and other payables with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included within inventories.

Under IFRS 15, the consideration received from certain customer is variable because the contract allows them to return the goods. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group presents a refund liability and a right to retuned goods asset separately in the consolidated statement of financial position.

Upon adoption of IFRS 15, the Group reclassified the provision for the right of return from trade and other payables to refund liabilities and the related return asset from inventories to right to returned goods asset.

(b) At the date of initial application, an amount of RMB16,236,000 related to advance consideration received from customers in accordance with sales contracts was included in trade and other payables. The balance was reclassified to contract liabilities upon application of IFRS 15 as it represented the Group's performance obligation to transfer goods in the future.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018

The following tables summarise the impacts of applying IFRS 15 on the consolidated statement of profit or loss for the current year and the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Group's operating, investing and financing cash flows for the current year.

Impact on the consolidated statement of profit or loss for the year ended 31 December 2018

	Note	**As reported** *RMB'000*	**Impact of adopting IFRS 15** *RMB'000*	**Amounts excluding impact of adopting IFRS 15** *RMB'000*
Revenue	*(a)*	293,922	723	294,645
Selling and distribution costs	*(a)*	(113,360)	(723)	(114,083)

Impact on the consolidated statement of financial position at 31 December 2018

	As reported	Impact of adopting IFRS 15	Amounts excluding impact of adopting IFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	39,610	2,392	42,002
Right to returned goods asset	2,392	(2,392)	—
Current liabilities			
Trade and other payables	81,368	11,751	93,119
Contract liabilities	7,587	(7,587)	—
Refund liabilities	4,164	(4,164)	—

(a) The application of IFRS 15 resulted in the consideration payable to a customer recorded as a reduction of the arrangement's transaction price, thereby reducing the amount of revenue recognised, unless the payment is for distinct good or service received from the customer. As a result, revenue and selling and distribution costs for the year ended 31 December 2018 reduced by RMB723,000.

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in accumulated losses as at 1 January 2018.

Classification and measurement of financial instruments

The Directors reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of IFRS 9 are continued to measure at amortised cost as were previously measured under IAS 39.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9.

As at 1 January 2018, an additional allowance on the Group's trade receivables of approximately RMB1,584,000 has been recognised, thereby increasing the opening accumulated losses of approximately RMB1,584,000.

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported as at 31 December 2017	**Adoption of IFRS 9 — Remeasurement**	**Carrying amount as at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other receivables	45,458	(1,584)	43,874

Impact on accumulated losses

The impact of transition to IFRS 9 on accumulated losses is as follows:

	Accumulated losses
	RMB'000
Balance as at 31 December 2017 under IAS 39	1,548,424
Recognition of expected credit losses for trade receivables under IFRS 9	1,584
Balance as at 1 January 2018 under IFRS 9	1,550,008

New and revised IFRSs issued but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
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 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]
IFRIC 23	Uncertainty over Income Tax Treatments[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

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

4 Effective for annual periods beginning on or after a date to be determined

5 Effective for business combinations and asset acquisitions for which the acquisition date is on after the beginning of the first annual period beginning on or after 1 January 2020

The Directors anticipate that, except as described below, the application of other new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related interpretations when it becomes effective.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB17,156,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise right-of-use assets and corresponding liabilities in respect of all these leases unless they are exempt from the reporting obligations under IFRS 16. The Directors expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of IFRS 16 will not have other material impact on amounts reported in the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods for the year. An analysis of the Group's revenue for the year is as follows.

	2018	2017*
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15 for the year ended 31 December 2018		
Disaggregated by major products		
Manufacture and sale of household and personal care products		
Hair-care products	**267,398**	233,067
Skin-care products	**4,355**	5,197
Other household and personal care products	**22,169**	25,951
	293,922	264,215

* The amounts for the year ended 31 December 2017 were recognised under IAS 18.

Disaggregation of revenue by timing of recognition

	2018
	RMB'000
Timing of revenue recognition	
At a point in time	**293,922**

Transaction price allocated to the remaining performance obligation for contracts with customers

All of the Group's remaining performance obligations for contracts with customers are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the executive directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on a mixture of product lines and geography. The Directors 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sales to external customers	**267,398**	233,067	**4,355**	5,197	**22,169**	25,951	**293,922**	264,215
Segment profit/(loss)	**10,338**	21,200	**90**	645	**(10,237)**	(5,941)	**191**	15,904
Bank interest income							**448**	379
Other income							**2,217**	8,647
Corporate and other unallocated expenses							**(3,676)**	(5,204)
Finance costs							**(376)**	(495)
(Loss)/profit before taxation							**(1,196)**	19,231

Other segment information

	Hair-care products		Skin-care products		Other household and personal care products		Unallocated		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	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	**2,178**	10,971	**48**	249	**194**	1,247	**—**	—	**2,420**	12,467
Depreciation of property, plant and equipment	**17,797**	14,887	**398**	338	**1,592**	1,692		242	**19,787**	17,159
Loss on disposals of property, plant and equipment	**33**	34	**1**	—	**3**	—	**—**	—	**37**	34
Impairment loss (reversal of impairment loss) recognised in respect of trade receivables	**1,998**	(4,520)	**33**	(102)	**165**	(514)	**—**	—	**2,196**	(5,136)
Allowance for inventories	**2,018**	99	**33**	2	**169**	11	**—**	—	**2,220**	112
Obsolete inventories written-off	**2,203**	1,059	**36**	247	**182**	2,064	**—**	—	**2,421**	3,370

Geographical information

The Group's 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 assets, in the case of property, plant and equipment.

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (country of domicile)	**286,832**	255,634	**113,918**	131,751
Hong Kong	**3,310**	4,395	**1,103**	652
Singapore	**1,704**	635	**—**	—
Thailand	**858**	1,862	**—**	—
Malaysia	**1,218**	1,021	**—**	—
Venezuela	**—**	668	**—**	—
Total	**293,922**	264,215	**115,021**	132,403

Information about major customers

There was no customer that contributed to 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

4. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**448**	379
Gain on sales of scrap materials	**1,100**	959
Government grants *(note a)*	**1,117**	2,741
Reversal of impairment loss recognised in respect of trade receivables	**—**	5,136
Reversal of over provision of other payables	**179**	—
Write-back of trade and other payables	**—**	4,947
Others	**270**	—
	3,114	14,162

Note:

(a) Included in the amount of government grants recognised during the year ended 31 December 2018 of approximately RMB1,117,000 (2017: approximately RMB2,741,000) 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.

5. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowing	**376**	495

6. TAXATION

	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
— Current year	**—**	4

(a) Under the Law of the PRC on Enterprise Income Tax (the "**PRC EIT Law**") and Implementation Regulation of the PRC 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, has been qualified as a HNTE in 2009. However, Bawang Guangzhou did not have any assessable profits subject to EIT for the years ended 31 December 2018 and 2017.

(b) No provision for Hong Kong Profits Tax has been provided for the years ended 31 December 2018 and 2017 as the Group does not have any assessable profits subject to Hong Kong Profits Tax for 2018 and 2017.

(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. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Auditor's remuneration	**1,040**	1,025
Allowance for inventories (included in cost of inventories recognised as an expense above)	**2,220**	112
Cost of inventories recognised as an expense *(note (a))*	**156,425**	136,902
Depreciation of property, plant and equipment	**19,787**	17,159
Impairment loss recognised in respect of trade receivables	**2,196**	—
Loss on disposals of property, plant and equipment	**37**	34
Net foreign exchange losses	**—**	1,679
Research and development costs recognised as an expense	**12,789**	10,794
Staff costs *(note (b))*	**47,654**	53,013
Obsolete inventories written-off (included in cost of inventories recognised as an expense above)	**2,421**	3,370

Notes:

(a) Cost of inventories recognised as an expense included depreciation of property, plant and equipment and staff costs of approximately RMB18,052,000 (2017: RMB14,898,000) and RMB13,875,000 (2017: RMB15,637,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) Staff costs included redundancy costs of RMB2,033,000 for the year ended 31 December 2018 (2017: nil).

8. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2018 (2017: nil), nor has any dividend been proposed since the end of the reporting period (2017: nil).

9. (LOSS)/EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	**(1,196)**	19,227

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**3,161,811**	3,161,811
Effect of dilutive potential ordinary shares:		
Share options	**N/A**	445
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**3,161,811**	3,162,256

For the year ended 31 December 2018, the computation of diluted loss per share does not assume the exercise of the Company's share options because their exercise would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018, buildings with carrying value of approximately RMB3,433,000 (2017: nil) have been pledged to secure banking facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	31/12/2018	1/1/2018	31/12/2017
	RMB'000	*RMB'000*	*RMB'000*
Receivables within the scope of IFRS 15 at amortised cost comprise:			
Trade receivables	**41,243**	48,321	48,321
Less: loss allowance for impairment of trade receivables	**(10,590)**	(8,394)	(6,810)
	30,653	39,927	41,511
Prepayment for purchase of raw materials	**2,888**	1,628	1,628
Short-term prepaid advertising fees	**649**	392	392
Other prepayments	**940**	1,009	1,009
Non-income tax receivables	**193**	121	121
Other receivables	**712**	797	797
	36,035	43,874	45,458

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 of trade receivables presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	31/12/2018	1/1/2018	31/12/2017
	RMB'000	*RMB'000*	*RMB'000*
Less than 3 months	**23,614**	29,655	29,920
More than 3 months but less than 6 months	**4,073**	10,041	10,438
More than 6 months but less than 12 months	**2,966**	231	1,153
	30,653	39,927	41,511

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:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month or on demand	**24,492**	23,663
After 1 month but within 3 months	**5,120**	6,864
	29,612	30,527

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.

BUSINESS REVIEW

The Directors report that the total revenue of the Group for the year ended 31 December 2018 was approximately RMB293.9 million, representing an increase of approximately 11.2% from approximately RMB264.2 million for 2017. The operating loss of the Group for the year ended 31 December 2018 was approximately RMB0.8 million as compared with an operating profit of approximately RMB19.7 million in 2017.

For the year ended 31 December 2018, the net loss of the Group was approximately RMB1.2 million, as compared with a net profit of approximately RMB19.2 million in 2017.

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 control the cost of sales and operating costs at a sustainable level for the year ended 31 December 2018.

During the year under review, to enhance the sales of various branded products, the Group carried out over 30 sales promotional activities in the first half of 2019 known as "Nuclear Explosion" specifically for the points of sales in 31 cities. During these sales activities, extensive in-store promotional and publicity banners and posters were hoisted to attract the customers' attention. Additional sales promoters were deployed to explain to the customers on the benefits of doing hair care through traditional Chinese medicine.

In April 2018, the Group selected a popular creative singer, Mr Mao Buyi, as our image and brand ambassador for Bawang branded shampoo and hair care products. We made full use of the image of the new brand ambassador to attract consumers attention via television advertisements, and advertisements posted at public transports, bus stops, residential lifts and the points of sales. During the year under review, we were ranked one of the top 10 hair care brands in China with a leading position in the anti-hair fall product category in the online sales channel. We believe that the marketing strategy for appointment of brand ambassador to act as key opinion leader on internet has made an impact in the development of our online sales channel.

To further motivate the Group's distributors and sales team, incentive leisure travel scheme for the participating distributors and internal staff members was offered for free to those who completed the predetermined sales target for a specified period. During the year under review, eligible staff members and distributors who participated in the scheme travelled to five selected destinations.

During the year under review, we reviewed and re-structured the Little King product series, which were mainly sold through the mother and child channel alongside with Bawang ladies' anti-hair fall hair care products.

As at 31 December 2018, the Bawang brand distribution network comprised approximately 753 distributors and 9 KA retailers, covering 27 provinces and four municipalities in China. Furthermore, the Bawang branded products were also sold in Hong Kong, Singapore, Thailand and Malaysia.

During the year under review, the Group continued to adopt the marketing theme "Let's chase for the wind rather than wait for the wind" to promote new Royal Wind branded shampoo products primarily for the online sales channel. As at 31 December 2018, the Royal Wind brand distribution network comprised approximately 209 distributors and 9 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 maintain the market coverage in the traditional channel. As at 31 December 2018, the Litao products distribution network comprised approximately 94 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. We sold the products through our online sales channel and staff or group purchase.

The Group has established 16 online retailing platforms for our Bawang, Royal Wind and Herborn branded products, of which two were established during the year.

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

— a patent of an ingredient mixture for an anti-hair fall Chinese herbal shampoo and its manufacturing know-how, which was issued by the State Intellectual Property Office of China in June 2018;

— three Bawang branded series shampoos were again recognised as "The 2018 New High-Tech Products in Guangdong" by the Guangdong Provincial Science and Technology Bureau in December 2018 for a period of three years until the end of 2021;

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

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

— our production process for haircare and skincare products has been certified by SGS with a validity period until July 2019 as to meet the requirements of US FDA CFSAN by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2008;

— our production process for haircare and skincare products has been certified by SGS with a validity period until July 2019 as to meet the requirements of ISO22716 by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2007;

— Bawang online flagship store was awarded "The 2018 Store Growth Prize (2018度店鋪成長獎)" by JD.com (京東超市);

— the Group was awarded the "The 2018 Innovative Marketing Enterprise of China's Trendy Industry Award" by Xinxi News (信息時報); and

— our marketing and publicity animation series "Herbal Fairytale" was awarded "The 2018 Entertainable IP Marketing 5S Golden Prize" by the Advertiser Magazine.

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue from operations amounted to approximately RMB293.9 million, representing an increase of approximately 11.2% from approximately RMB264.2 million for 2017. The revenue through the online sales channel had a notable increase of approximately 54.2% as compared with 2017, but such increase was partially offset by the decrease in the aggregate revenue generated from the traditional sales channels.

The Group's core brand, Bawang, generated approximately RMB271.2 million in revenue, which accounted for approximately 92.3% of the Group's total revenue by product category in 2018, and represented an increase of approximately 18.2% as compared with 2017.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind, generated approximately RMB8.5 million in revenue, which accounted for approximately 2.9% of the Group's total revenue by product category in 2018, and represented a decrease of approximately 42.2% as compared with 2017.

The natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated approximately RMB9.0 million in revenue, which accounted for approximately 3.1% of the Group's total revenue by product category in 2018, and represented a decrease of approximately 26.8% as compared with 2017.

The branded Chinese herbal skincare series, Herborn, generated approximately RMB4.2 million in revenue, which accounted for approximately 1.4% of the Group's total revenue by product category in 2018, and represented a decrease of approximately 19.2% as compared with 2017.

We also sold our products through extensive distribution and retail networks. During the year under review, sales to our distributors and retailers represented approximately 54.4% and approximately 45.6% of the Group's total revenue from operations respectively.

In 2018, our products were also sold in Hong Kong, Singapore, Thailand and Malaysia. The sales to these overseas markets accounted for approximately 2.4% of our total revenue in 2018.

Cost of Sales

Cost of sales in 2018 amounted to approximately RMB156.4 million, representing an increase of approximately 14.2% compared with approximately RMB136.9 million in 2017. Such increase was mainly due to the increase in packaging materials consumed and manufacturing expenses, which was partially offset by a decrease in the costs of raw materials.

Gross Profit

During the year under review, the Group's gross profit increased to approximately RMB137.5 million, representing an increase of approximately 8.0% as compared with approximately RMB127.3 million for 2017. The gross profit margin decreased from approximately 48.2% for 2017 to approximately 46.8% for 2018. Such decrease was mainly attributable to the increase in cost of sales.

Other Income

During the year under review, other income decreased to RMB3.1 million, representing a decrease of 78.2% compared with RMB14.2 million in 2017. Such decrease was mainly due to the decrease in both government grants received and the write-back of provisions for trade receivables and payables.

Selling and Distribution Costs

Selling and distribution costs increased to approximately RMB113.4 million for 2018, representing an increase of approximately 21.0% as compared to that for 2017. Such increase was mainly due to the increase in promotion expenses through online sales platforms and the increase in logistics and delivery expenses that resulted from the notable increase in sales volume through the online sales channel, but such increase was partially offset by the decrease in outsourced labour costs, salaries and travelling expenses. As a percentage of revenue, our selling and distribution costs increased from approximately 35.5% in 2017 to 38.6% in 2018.

Administrative Expenses

Administrative expenses for 2018 amounted to approximately RMB25.8 million, representing a decrease of approximately 7.5% as compared with approximately RMB27.9 million in 2017. Such decrease was mainly due to the decreases in travelling expenses, entertainment expenses and net foreign exchange losses. As a percentage of revenue, our administration costs were approximately 8.8% and 10.5% in 2018 and 2017 respectively.

Recognition of Impairment Loss

During the year under review, the Group recognised an impairment loss of approximately RMB2.2 million in respect of trade receivables which was mainly attributable to by long aged trade debts due from traditional distributors and retailers.

Loss from Operations

The Group recorded an operating loss of approximately RMB1.2 million for 2018, as compared with an operating profit of approximately RMB19.7 million for 2017, which was mainly because of (1) increase from packaging materials consumed and manufacturing expenses, which resulted in an increase in cost of sales; (2) the investments into promotional activities to further develop the Group's online sales channel, which led to a substantial increase in promotion expenses and logistics costs arising from sales through this channel; (3) decrease in other income; and (4) the impairment of trade receivables.

Finance Costs

For the year ended 31 December 2018, interest on bank borrowings amounted to approximately RMB0.4 million (2017: RMB0.5 million).

Taxation

During the year ended 31 December 2018, there was no income tax expense for the Group (2017: RMB4,000).

Loss for the Year

As a result of the combined effect of the above mentioned factors, the Group recorded a loss of approximately RMB1.2 million for 2018, as compared with a profit of approximately RMB19.2 million for 2017.

Loss for the Year Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded a loss attributable to owners of the Company of approximately RMB1.2 million for 2018, as compared with a profit attributable to owners of the Company of approximately RMB19.2 million for 2017.

OUTLOOK

The International Monetary Fund ("**IMF**") projected China's gross domestic product ("**GDP**") growth to stand at 6.2% for 2019. Domestic demand was also estimated to remain robust, aided by policies to boost consumption in 2019. However, industrial production and new export orders have moderated, asset prices have experienced downward pressure and sovereign bond spreads have risen amid trade tensions. Prices of newly constructed residential buildings have rebounded, including in first-tier cities following a period of correction.

The actual China's year-on-year GDP growth reached 6.6% in 2018, which is in line with its growth target. An economist from Beijing stated that with the magnitude and size of the GDP at present, this kind of rate is already very impressive. So, it is extremely important for China to maintain GDP growth to be above six percent through continuous reform, opening-up of its market and trade with more countries.

IMF indicated at an economic forum that the world economy is growing more slowly than expected, risks are rising and the expansion seen in recent years is losing momentum, which calls for policymakers to collaborate to address global risks. To counterbalance the loss of momentum of the world economy which may be triggered by the trade tension between China and the US, an economist is of the view that China should continue its reform and opening-up and continue to support the world economy.

The Directors tend to be cautious about the future of Chinese economy when formulating the business strategy of the Group.

The corporate theme for 2019 is "To stress on execution of plans, the paramount objective is to sell".

For Bawang branded product series, the Group will strengthen its marketing and product strategies to develop the segment of the younger generation, particularly for anti-hair fall products. Apart from designing trendy and colourful bundled products with lively promotional and publicity materials to attract the young customers, the Group will develop a new animated character series for launch through smart phones APPs to create a younger brand image. We will give out tailor-made freebies which appeal to young customers. Through Internet and social media, the Group will make use of popular webhosts as key opinion leaders to communicate the concept of doing haircare through traditional Chinese medicine so as to educate young customers on the importance of taking precautionary steps for anti-hair fall while they are young. We intend to develop the university students market segment. To communicate the Bawang brand concepts to them, to enhance their brand awareness and to arouse their interest in our branded products, we plan to give out prizes in advertising arts for creative brand building for the university students in China. We will also create key visual graphic publicity materials which serve to positively reinforce the customers' memory and recognition of our brands.

For Royal Wind branded product series, the Group has always promoted its brand image to cater for the trendy lifestyle of young customers. The Group will re-design and re-package new hair care products and fragrance shower gels for sales through the exclusive zones inside the contracted supermarkets.

For conventional channels, the Group will take a cautious approach to invest in the development and maintenance of the relationship with channel partners. On retailer channel, the Group will concentrate its efforts to enhance the sales through rolling out new products into the shops by stages and we will terminate the cooperation with those loss-making retailers. On distributor channel, the Group will reframe the major accounts in the distribution network with a view to minimizing the operating loss in this channel. On traditional channel, the Group intends to roll out shower gel and laundry detergent on top of hair care products to enhance the sales in this channel with a view to maintaining the number of point of sales and the overall size of this channel.

As to the online sales channel, the Group has achieved significant sales growth over the past few years. The Group understands that we may have to make substantial marketing efforts to achieve a significant rate of growth in 2019 given the current size of this channel. The Group intends to integrate the following three aspects into one: online channel, brand name, and media, for creating an impact on the enhancement of sales revenue through this channel.

For production management, having established a disciplined and an efficient manufacturing environment, we intend to leverage on our management skills, advanced production equipment, and spare production facilities and capacities for developing an original equipment manufacturer (OEM) business for other companies. We believe that this OEM business would generate additional revenue for the Group.

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 2018	31 December 2017
	RMB in million	*RMB in million*
Cash and cash equivalents	**65.5**	46.1
Total loans	**12.6**	—
Total assets	**283.2**	298.4
The gearing ratio[1]	**4.3%**	—

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 2018, 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 2018.

CAPITAL COMMITMENT

As at 31 December 2018, the capital commitment of the Group amounted to approximately RMB0.3 million.

CHARGE OF ASSETS

As at 31 December 2018, buildings with carrying values of approximately RMB3.4 million (2017: nil) were pledged to secure banking facilities granted to the Group. As at 31 December 2018, banking facilities of approximately RMB12.6 million were utilised and approximately RMB67.4 million were unutilised and available for the Group's future financing.

TRADE AND OTHER PAYABLES

As at 31 December 2018, the trade and other payables of the Group was approximately RMB81.4 million (2017: RMB117.4 million). The decrease was primarily due to reclassification of certain payables to refund liabilities and contract liabilities once adopted IFRS 15. For the two years ended 31 December 2018, 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.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this announcement.

THE CORPORATE GOVERNANCE CODE

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 applicable code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the year ended 31 December 2018, except for the deviations as stated below.

On 22 November 2017, Mr. LI Bida ("**Mr. Li**"), a former independent non-executive director of the Company ("**INED**"), the former chairman of the remuneration committee, a former member of the nomination committee and the audit and risk management committee of the Company, passed away due to ill health. Following this event, the Board comprised five directors, including three executive directors and two INEDs.

Pursuant to Rule 3.10(1) of the Listing Rules, the number of INEDs should not fall below the minimum number of three and therefore, the Company was not in compliance with Rule 3.10(1) of the Listing Rules. Furthermore, the vacancy for chairman of the remuneration committee does not fulfil the requirement that the chairman of the remuneration committee is to be chaired by an INED under Rule 3.25 of the Listing Rules, and the requirement that the majority of the nomination committee members must be INEDs pursuant to A.5.1 of the CG Code. Moreover, the number of audit and risk management committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

With effect from 14 February 2018, Mr. CHEUNG Kin Wing ("**Mr. Cheung**"), an INED, was appointed as the chairman of the remuneration committee and a member of the nomination committee of the Company. Following the above committee appointments, the Company re-complied with Rule 3.25 of the Listing Rules and A.5.1 of the CG Code. With effect from 17 April 2018, Dr. WANG Qi ("**Dr. Wang**") was appointed as an INED and a member of the audit and risk management committee of the Company. Following the appointment of Dr. Wang, the Company re-complied with Rule 3.10(1) and Rule 3.21 of the Listing Rules.

Further details in respect of the past non-compliances and current composition of the Board may be found in the announcements of the Company dated 30 November 2017, 14 February 2018, 22 February 2018, 13 March 2018 and 17 April 2018.

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 AND RISK MANAGEMENT COMMITTEE

The audit and risk management committee has reviewed the annual results of the Group for the year ended 31 December 2018 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 2018 after taking into account the Dividend Policy of the Group, which was announced by the Company on 31 December 2018.

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, 31 May 2019. The register of members of the Company will be closed from Saturday, 25 May 2019 to Friday, 31 May 2019 (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, 24 May 2019.

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 2018 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 2019

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 three independent non-executive directors, namely, Dr. NGAI Wai Fung, Mr. CHEUNG Kin Wing and Dr. WANG Qi.