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 2019

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 2019 together with the comparative figures for the year ended 31 December 2018.

The Board refers to the profit warning announcements dated 24 February 2020 and the profit warning supplemental announcement of the Company dated 28 February 2020 (the "**Supplemental Announcement**"). The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2019:

Total revenue of the Group was approximately RMB258.2 million, representing a decrease of approximately 12.1% from approximately RMB293.9 million for 2018.

Revenue from the online sales channel was approximately RMB152.8 million, representing a decrease of 4.7% from approximately RMB160.4 million for 2018.

Operating loss of the Group was approximately RMB12.9 million, as compared with an operating loss of approximately RMB0.8 million for 2018.

Net loss was approximately RMB6.1 million, as compared with a net loss of approximately RMB1.2 million for 2018. The actual net loss of approximately RMB6.1 million is lower than that of the expected net loss in the region of approximately RMB10.0 million for 2019 as disclosed in the Supplemental Announcement. The favorable variance was mainly attributable to a lower amount of impairment loss being recorded after management's assessment on credit risk.

Loss attributable to owners of the Company was approximately RMB6.1 million, as compared with the loss attributable to owners of the Company of approximately RMB1.2 million for 2018.

Loss per share (Basic and diluted) was approximately RMB0.1929 cents and RMB0.1929 cents, 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 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Revenue	*3*	**258,158**	293,922
Cost of sales		**(143,137)**	(156,425)
Gross profit		**115,021**	137,497
Other income	*4*	**3,030**	3,114
Selling and distribution costs		**(104,724)**	(113,360)
Administrative expenses		**(30,570)**	(25,838)
Reversal of impairment losses/(impairment losses) recognised in respect of trade receivables		**4,807**	(2,196)
Other expenses		**(461)**	(37)
Operating loss		**(12,897)**	(820)
Finance costs	*5*	**(2,267)**	(376)
Loss before taxation		**(15,164)**	(1,196)
Income tax credit	*6*	**9,064**	—
Loss for the year attributable to owners of the Company	*7*	**(6,100)**	(1,196)
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		**(976)**	(1,784)
Loss and total comprehensive expense for the year attributable to owners of the Company		**(7,076)**	(2,980)

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

For the year ended 31 December 2019

	Note	**2019**	2018
Loss per share	*9*		
Basic		**RMB(0.1929) cents**	RMB(0.0378) cents
Diluted		**RMB(0.1929) cents**	RMB(0.0378) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**98,305**	115,021
Right-of-use assets		**30,425**	—
		128,730	115,021
Current assets			
Inventories		**29,382**	39,610
Right to returned goods asset		**2,319**	2,392
Trade and other receivables	*11*	**26,053**	36,035
Amounts due from related parties		**1,493**	4,706
Deposit with bank		**—**	20,000
Bank balances and cash		**102,195**	65,483
		161,442	168,226
Current liabilities			
Trade and other payables	*12*	**75,676**	81,368
Amounts due to related parties		**47**	2,488
Contract liabilities		**10,775**	7,587
Refund liabilities		**3,894**	4,164
Lease liabilities		**7,330**	—
Bank borrowing		**9,650**	12,550
Income tax payables		**—**	9,070
Provision		**338**	338
		107,710	117,565
Net current assets		**53,732**	50,661
Total assets less current liabilities		**182,462**	165,682
Non-current liability			
Lease liabilities		**23,802**	—
Net assets		**158,660**	165,682
Capital and reserves			
Share capital		**277,932**	277,878
Reserves		**(119,272)**	(112,196)
Total equity		**158,660**	165,682

NOTES:

1. GENERAL

BaWang International (Group) Holding Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of 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; and (2) 50.43% by Mr. CHEN Qiyuan, the chairman of the board of directors of the Company (the "**Directors**").

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.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC whose functional currencies are RMB, the functional currency of the Company and other subsidiaries is Hong Kong dollars ("**HK$**").

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 issued by the International Accounting Standards Board (the "**IASB**") and the IFRS Interpretations Committee ("**IFRIC**") of the IASB.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

The adoption of IFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as 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 these consolidated financial statements.

Impacts on adoption of IFRS 16 *Leases*

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied IFRS 16 *Leases* retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17 *Leases*.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 4.8% to 5.0%.

The following table summaries the impact of transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

		Carrying amount previously reported at 31 December 2018	**Impact on adoption of IFRS 16**	**Carrying amount as restated at 1 January 2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets	*a*	—	38,133	38,133
Lease liabilities	*a*	—	38,133	38,133

Note:

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately RMB38,133,000.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liabilities. The transition to IFRS 16 had no impact on the accumulated losses at 1 January 2019.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follows:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	17,156
Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(14)
Add: Extension option reasonably certain to be exercised	25,914
Discounted using the incremental borrowing rate at 1 January 2019	(4,923)
Lease liabilities recognised as at 1 January 2019	38,133
Analysed as	
Current portion	7,001
Non-current portion	31,132
	38,133

On the date of initial application of IFRS 16, the Group has also used the following practical expedients permitted by the standard, where applicable:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

New and revised IFRSs issued but not yet effective

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

IFRS 17	Insurance Contracts[2]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current and Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

[1] Effective for annual periods beginning on or after 1 January 2020

[2] The new standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021, however in June 2019, IASB deferred the effective date for annual period beginning on or after 1 January 2023

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2022

The Directors anticipate that the application of new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods, net of discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows.

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Manufacturing and sales of the household and personal care products		
Hair-care products	**234,142**	267,398
Skin-care products	**1,798**	4,355
Other household and personal care products	**22,218**	22,169
	258,158	293,922

Disaggregation of revenue from contracts with customers by timing of recognition

	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**258,158**	293,922

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 types of goods delivered. 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.

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

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

Operating segments including manufacture and sale of other household and personal care products have been aggregated into a single reporting segment after taking into account that none of which are of a sufficient size to be reported separately.

The CODM is provided with segment information concerning segment revenue and result. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sales to external customers	**234,142**	267,398	**1,798**	4,355	**22,218**	22,169	**258,158**	293,922
Segment (loss)/profit	**(5,179)**	10,338	**94**	90	**(7,885)**	(10,237)	**(12,970)**	191
Bank interest income							**514**	448
Other income							**2,248**	2,217
Corporate and other unallocated expenses							**(4,371)**	(3,676)
Finance costs							**(585)**	(376)
Loss before taxation							**(15,164)**	(1,196)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by/(loss) from each segment without allocation of bank interest income, gain on sales of scrap materials, government grants, net foreign exchange losses/(gains), central administrative costs, directors' emoluments and interest on bank borrowings. This is the measure reported to the executive directors of the Company for the purposes of resource allocation and performance assessment.

Upon application of IFRS 16, depreciation of right-of-use assets and interest on lease liabilities are now included in the measure of segment result during the year ended 31 December 2019. Comparative information is not restated.

Other segment information

	Hair-care products		Skin-care products		Other household and personal care products		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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 property, plant and equipment	**3,833**	2,178	**29**	48	**364**	194	**4,226**	2,420
Depreciation of property, plant and equipment	**18,766**	17,797	**144**	398	**1,781**	1,592	**20,691**	19,787
Depreciation of right-of-use assets	**6,991**	—	**54**	—	**663**	—	**7,708**	—
Interest on lease liabilities	**1,525**	—	**12**	—	**145**	—	**1,682**	—
Loss on disposals of property, plant and equipment	**165**	33	**1**	1	**16**	3	**182**	37
Write-off of property, plant and equipment	**2**	—	**—**	—	**—**	—	**2**	—
(Reversal of impairment losses)/ impairment losses recognised in respect of trade receivables	**(4,340)**	1,998	**(33)**	33	**(434)**	165	**(4,807)**	2,196
(Reversal of allowance for inventories)/ allowance for inventories	**(2,672)**	2,018	**(20)**	33	**(254)**	169	**(2,946)**	2,220
Obsolete inventories written-off	**2,310**	2,203	**18**	36	**219**	182	**2,547**	2,421
Amounts regularly provided to the CODM but not included in the measure of segment results								
Interest on bank borrowing	**—**	—	**—**	—	**—**	—	**585**	376
Bank interest income	**—**	—	**—**	—	**—**	—	**(514)**	(448)

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 and right-of-use assets.

	Revenue from external customers		Non-current assets	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC (country of domicile)	**255,134**	286,832	**127,747**	113,918
Hong Kong	**2,336**	3,310	**983**	1,103
Singapore	**—**	1,704	**—**	—
Thailand	**236**	858	**—**	—
Malaysia	**452**	1,218	**—**	—
Total	**258,158**	293,922	**128,730**	115,021

Information about major customers

Details of the customer contributing over 10% of total revenue of the Group are as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer A*	**30,157**	N/A**

*	Revenue from segment of hair-care products

**	The corresponding revenue does not contribute over 10% of total revenue of the Group.

4. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**514**	448
Gain on sales of scrap materials	**845**	1,100
Government grants *(note (a))*	**1,403**	1,117
Reversal of over provision of other payables	**—**	179
Others	**268**	270
	3,030	3,114

Note:

(a) Included in the amount of government grants recognised during the year ended 31 December 2019 of approximately RMB1,403,000 (2018: RMB1,117,000) were received from the PRC government in respect of certain research projects the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for both years.

5. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on:		
Bank borrowing	**585**	376
Lease liabilities	**1,682**	—
	2,267	376

6. INCOME TAX CREDIT

	2019	2018
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
— Current year	**6**	—
— Over provision in prior years *(note (d))*	**(9,070)**	—
	(9,064)	—

(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.

Pursuant to circular issued by Ministry of Finance and National Tax Bureau on 17 January 2019, the small-scaled minimal profit enterprise with an annual taxable income below RMB1,000,000 (RMB1,000,000 included) is entitled to a preferential tax treatment of 75% exemption of taxable income and application of income tax rate as 20% from 1 January 2019 to 31 December 2021. Certain PRC subsidiaries of the Group were qualified during the year.

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 since 2009. However, Bawang Guangzhou did not have any assessable profits subject to EIT for the years ended 31 December 2019 and 2018.

(b) No provision for Hong Kong Profits Tax has been provided for the years ended 31 December 2019 and 2018 as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2019 and 2018.

(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 years ended 31 December 2019 and 2018.

(d) Based on the facts and circumstances and an independent tax consultant report obtained by the Directors in current year, the Group concluded that there is an over provision of EIT in prior years and credited in profit or loss for the year ended 31 December 2019.

7. LOSS FOR THE YEAR

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

	2019	2018
	RMB'000	*RMB'000*
Auditor's remuneration	**1,100**	1,040
Cost of inventories recognised as an expense *(note (a))*	**143,536**	151,784
Depreciation of property, plant and equipment	**20,691**	19,787
Depreciation of right-of-use assets	**7,708**	—
Loss on disposals of property, plant and equipment	**182**	37
Write-off of property, plant and equipment	**2**	—
Net foreign exchange losses/(gains)	**242**	(845)
Research and development costs recognised as an expense	**14,323**	12,789
Staff costs *(note (b))*	**54,721**	47,654
(Reversal of allowance for inventories)/allowance for inventories (included in cost of inventories recognised as an expense)	**(2,946)**	2,220
Obsolete inventories written-off (included in cost of inventories recognised as an expense)	**2,547**	2,421

Notes:

(a) Cost of inventories recognised as an expense included depreciation of property, plant and equipment, depreciation of right-of-use assets and staff costs of approximately RMB16,954,000 (2018: RMB18,052,000), RMB7,708,000 (2018: nil) and RMB17,002,000 (2018: RMB13,875,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) Staff costs included redundancy costs of RMB1,154,000 for the year ended 31 December 2019 (2018: RMB2,033,000).

8. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2019 (2018: nil), nor has any dividend been proposed since the end of the reporting period (2018: nil).

9. LOSS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(6,100)**	(1,196)

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,162,289**	3,161,811
Effect of dilutive potential ordinary shares:		
Share options	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,162,289**	3,161,811

Diluted loss per share was the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2019. For the year ended 31 December 2018, the computation of diluted loss per share did 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 2019, buildings with carrying value of approximately RMB3,186,000 (2018: RMB3,433,000) have been pledged to secure banking facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Receivables within the scope of IFRS 15 at amortised cost comprise:		
Trade receivables	**26,090**	41,243
Less: allowance for impairment of trade receivables	**(4,612)**	(10,590)
	21,478	30,653
Prepayment for purchase of raw materials	**2,103**	2,888
Other prepayments	**1,940**	1,589
Non-income tax receivables	**111**	193
Other receivables	**421**	712
	26,053	36,035

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.

	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**18,990**	23,614
More than 3 months but less than 6 months	**2,165**	4,073
More than 6 months but less than 12 months	**323**	2,966
	21,478	30,653

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:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month or on demand	**25,195**	24,492
After 1 month but within 3 months	**7,366**	5,120
	32,561	29,612

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 2019 was approximately RMB258.2 million, representing a decrease of approximately 12.1% from approximately RMB293.9 million for 2018. The operating loss of the Group for the year ended 31 December 2019 was approximately RMB12.9 million as compared with an operating loss of approximately RMB0.8 million for 2018.

For the year ended 31 December 2019, the net loss of the Group was approximately RMB6.1 million, as compared with a net loss of approximately RMB1.2 million for 2018.

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.

During the year under review, to enhance the sales of Bawang branded products, we successfully upgraded the packaging of two Bawang branded hair-care product series for the conventional sales channels, and new packagings were designed with trendy and professional image together with the introduction of a couple of social media celebrity versions of Bawang hair-care products that were created for sales through the conventional channels.

In April 2019, the Group selected a popular Chinese style singer, Mr. Huo Zun (霍尊), as our short-term 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 social media platforms such as Weibo and WeChat, publicity advertisements posted in city metros and at the points of sales with the slogan "Exclusive enjoyment of the strength of natural products, choose Bawang anti-hair fall products", which aimed to promote Bawang's anti-hair fall shampoos to catch the attention of consumers. We rolled out bundled products that were named after Huo Zun for the purpose of enhancing the Bawang brand image as national and trendy products for young consumers.

During the year under review, the Group cooperated with an e-commerce platform, Pinduoduo, and rolled out a dedicated herbal essence ginger shampoo for promotion of the Bawang brand name on this platform. Through this cross-industry cooperation, we successfully rolled out dedicated bundled product series during the festive times and seasons, which drew the attention of the consumers and were well-received by them. In the second half of the year, we rolled out amino acid shampoo product series to capture the market share in the traditional channel.

During the year under review, the Group gave away some free Bawang shampoo product testers through dispensing machines in public areas. Advertisements of Bawang branded products were showcased in lifts of buildings in Guangzhou, Shenzhen and other first-tier cities as well as the cross-border coaches among Guangdong, Hong Kong, and Macau.

Additionally, we successfully developed a sales channel for college students. Leveraging on the "College Students Advertising Festival" (大學生廣告藝術節) and cooperating with some colleges, we introduced Bawang branded products to the campuses which publicized and educated young people to understand the concept of hair-care by using herbal shampoo products.

Through the "China International Comics Festival Expo" (中國國際漫畫節博覽會), the Group has engaged in intensive cooperation with some major animation companies. A comic book known as "Herbal Fairytale" (藥精奇緣) has been released and a revamped comic App has been launched for promoting the Bawang brand in the form of comics and animation, which enhanced and reinforced the consumers' understanding of the concept of hair-care through traditional Chinese medicine shampoos and the different functionalities of various Bawang branded products.

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.

As at 31 December 2019, the Bawang brand distribution network comprised approximately 810 distributors and six KA retailers, covering 26 provinces and four municipalities in China. Furthermore, the Bawang branded products were also sold in Hong Kong, 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 2019, the Royal Wind brand distribution network comprised approximately 125 distributors and six KA retailers, covering 26 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 2019, the Litao products distribution network comprised approximately 44 distributors, covering 26 provinces and four municipalities in China.

The Herborn Chinese herbal skin-care 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 18 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:

— 10 Bawang branded Chinese herbal shampoos and hair-care series products have been recognised as "The 2019 New High-Tech Products in Guangdong Province (廣東省高新技術產品)" by the Guangdong Provincial New Hi-tech Enterprise Association (廣東省高薪技術企業協會) in December 2019 for a period of three years until the end of 2022;

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

— our production process for hair-care and skin-care products has been certified by SGS with a validity period until July 2022 as to meet the requirements of US FDA CFSAN by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2008;

— our production process for hair-care and skin-care products has been certified by SGS with a validity period until July 2022 as to meet the requirements of ISO22716 by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2007;

— we were awarded the "T-Mall Golden Award 2019 (天貓金妝獎)" certificate by TMALL (天貓) recognising our outstanding logistics services in March 2019;

— Bawang (Guangzhou) Co., Ltd was awarded "Excellent Cooperation Company" (優秀合作單位) and "Charity Award" (愛心公益獎) by Guangzhou Dade Public Welfare (廣州大德公益) in July 2019;

— our Bawang and Royal Wind brands were awarded "Guangdong Daily Chemical — China Power (廣東日化—中國力量)" for the most influential brand award by the Guangdong Daily Chemical Chamber of Commerce (廣東省日化商會) in September 2019;

— we were awarded the 4th China brand i berry award (中國品牌i莓獎) of the "Most Favourable Consumer Brands of the Year" (年度最受消費者喜愛日化品牌) by Blueberry Society (藍莓會) in November 2019;

— we were awarded the "8th Social Marketing Forum and Golden Bee Integrated Marketing Golden Award" (第八屆社會化營銷論壇暨金蜜蜂整合營銷類金獎) by the Advertiser Forum (廣告主論壇) in November 2019;

— we were awarded the "Most Favorable Consumers Brand of 2019" (最受消費者青睞品牌獎) in the China trendy industry by Xinxi News (信息時報) in December 2019; and

— the Group won the honour as the "Top 10 China Daily Chemical Brands (中國日化用品十大品牌企業) in 2019" in the iiMedia Ranking (艾媒金榜). The award was based on assessment of the company's strength index, media attention index, public praise index, and analyst evaluation index, which was carried out by iiMedia Daily Chemical Industry Research Centre (艾媒日化品牌行業研究中心).

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue from operations amounted to approximately RMB258.2 million, representing a decrease of approximately 12.1% from approximately RMB293.9 million for 2018. The revenue through the online sales channel decreased by approximately 4.7% as compared with 2018 and the revenue through the conventional sales channel decreased by approximately 21.1% as compared with 2018.

The Group's core brand, Bawang, generated approximately RMB241.5 million in revenue, which accounted for approximately 93.5% of the Group's total revenue by product category in 2019, and represented a decrease of approximately 11.0% as compared with 2018.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind, generated approximately RMB7.0 million in revenue, which accounted for approximately 2.7% of the Group's total revenue by product category in 2019, and represented a decrease of approximately 17.7% as compared with 2018.

The natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated approximately RMB7.5 million in revenue, which accounted for approximately 2.9% of the Group's total revenue by product category in 2019, and represented a decrease of approximately 16.7% as compared with 2018.

The branded Chinese herbal skin-care series, Herborn, generated approximately RMB1.8 million in revenue, which accounted for approximately 0.7% of the Group's total revenue by product category in 2019, and represented a decrease of approximately 57.1% as compared with 2018.

We sold our products through extensive distribution and retail networks, via conventional and online sales channels. During the year ended 31 December 2019, a summary of our sales revenue in percentage through different networks and/or channels is as follows:

Network/Channel	**Conventional**	**Online**	**Total**
	(%)	*(%)*	*(%)*
Distributor	33.7	23.4	57.1
Retailer	7.1	35.8	42.9
Total	40.8	59.2	100.0

In 2019, our products were also sold in Hong Kong, Thailand and Malaysia. The sales to these overseas markets accounted for approximately 1.2% of our total revenue in 2019.

Cost of Sales

Cost of sales in 2019 amounted to approximately RMB143.1 million, representing a decrease of approximately 8.5% compared with approximately RMB156.4 million in 2018. Such decrease was mainly due to the decrease in materials consumed, packaging material consumed and manufacturing expenses, which was partially offset by an increase in the costs of direct labour.

Gross Profit

During the year under review, the Group's gross profit decreased to approximately RMB115.0 million, representing a decrease of approximately 16.4% as compared with approximately RMB137.5 million for 2018. The gross profit margin decreased from approximately 46.8% for 2018 to approximately 44.5% for 2019. Such decrease was mainly attributable to a decrease of sales volume, which led to an increase in production cost per unit due to diseconomies of scale.

Other Income

During the year under review, other income decreased to RMB3.0 million, representing a mild decrease of 3.2% as compared with 2018.

Selling and Distribution Costs

Selling and distribution costs decreased to approximately RMB104.7 million for 2019, representing a decrease of approximately 7.7% as compared to that for 2018. Such decrease was mainly due to decrease in goods delivery expenses and the decrease in outsourced labour costs, which resulted from the decrease in sales volume through the conventional sales channel, but such decrease was partially offset by the increases in salaries of sales staff and advertising and branding expenses. As a percentage of revenue, our selling and distribution costs increased from approximately 38.6% in 2018 to 40.5% in 2019.

Administrative Expenses

Administrative expenses for 2019 amounted to approximately RMB30.6 million, representing an increase of approximately 18.6% as compared with approximately RMB25.8 million in 2018. Such increase was mainly due to the increase in salaries and research and development expenses, but such increase was partially offset by the decrease in legal and professional fees and outsourced labour costs. As a percentage of revenue, our administration expenses were approximately 11.9% and 8.8% in 2019 and 2018, respectively.

Reversal of Impairment Losses

For the year under review, the Group has made a reversal of impairment losses of approximately RMB4.8 million in respect of trade receivables, following the management's assessment on credit risk of our financial assets by adopting the expected credit loss (the "**ECL**") according to IFRS 9.

Loss from Operations

The Group recorded an operating loss of approximately RMB12.9 million for 2019, as compared with an operating loss of approximately RMB0.8 million for 2018, which was mainly because of (1) the Group has been facing intense competition in the sales of its products, which caused a decrease in revenue; and (2) the Group increased its expenditures in the ongoing development of its online sales channel, which negatively affected the Group's operating margin for the year.

Finance Costs

For the year ended 31 December 2019, interest on bank borrowings amounted to approximately RMB0.6 million (2018: RMB0.4 million). Interest on lease liabilities amounted to approximately RMB1.7 million (2018: nil).

Income Tax

During the year ended 31 December 2019, the Group's income tax expense was approximately RMB6,000 (2018: nil). Based on facts and circumstances and a detailed review of the Group's tax position carried out by an independent tax consultant, the over provision for PRC Enterprise Income Tax in prior years of approximately RMB9.1 million (2018: nil) was written back and credited to profit or loss for the year ended 31 December 2019.

Loss for the Year

As a result of the combined effect of the above mentioned factors, the Group recorded a loss of approximately RMB6.1 million for 2019, as compared with a loss of approximately RMB1.2 million for 2018.

The actual net loss of approximately RMB6.1 million is lower than that of the expected net loss in the region of approximately RMB10.0 million for 2019 as disclosed in the Supplemental Announcement. The favorable variance was mainly attributable to a lower amount of impairment loss being recorded for our financial assets following management's assessment on credit risk by adopting the ECL according to IFRS 9.

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 RMB6.1 million for 2019, as compared with a loss attributable to owners of the Company of approximately RMB1.2 million for 2018.

OUTLOOK

In late January 2020, the International Monetary Fund ("**IMF**") revised China's gross domestic product ("**GDP**") growth prediction for 2020 from 5.8% per cent in October 2019 to 6.0% after the phase one of the Economic and Trade Agreement between China and the United States was signed in mid-January 2020. The actual China's year-on-year GDP growth reached 6.1% in 2019.

The IMF said that the economic growth projection for 2020, which depends on avoiding further escalation in the US-China trade tensions, averting a no-deal Brexit, and the economic ramifications of social unrest and geopolitical tensions remaining contained.

Regarding the impact of the outbreak of the disease caused by the COVID-19 virus on the economic activities and growth, the IMF said in late January 2020 that it was "too early" to assess the full impact of the epidemic but acknowledged that it had already affected sectors such as tourism and transportation. The IMF went on to indicate that the epidemic could damage, not limited to China, the global economic growth in 2020, but a sharp and rapid economic rebound could follow in 2021, if the disease is "contained rapidly, in what is known as the V-shaped impact."

In the midst of novel coronavirus outbreak in mid-February 2020, a poll of 40 economists, which was commissioned by Reuters, predicted China's annual economic growth in the first quarter of 2020 to slump to 4.5% from 6.0% in the previous quarter. That drop was expected to drag down the full-year growth rate in 2020 to 5.5% from 6.1% in 2019, its weakest since at least 1990 when comparable records began.

However, economists were optimistic the economy would bounce back as soon as the second quarter, with growth then forecast to recover to a median 5.7%, according to the poll.

In early March 2020, the IMF slashed its 2020 economic growth outlook for China to below 5.6 per cent because of the "sheer geographic spread" of the coronavirus epidemic globally. With the ever-increasing number of confirmed novel coronavirus cases and casualties from mid-March 2020, the economic growth prospect of 2020 is expected to be bleak.

Owing to the uncertainties as mentioned in the above paragraphs, the Directors tend not to be optimistic about the Chinese economy in 2020. Having said that, we believe that people will pay more attention to their health care after this epidemic. Hence, business opportunities may be available to the Group. We are confident about the Group's development in the long run.

The corporate theme for 2020 is "Without fear of difficulty, re-launch again".

For Bawang branded products, the Group will make use of: (1) the popularity of Internet celebrities to increase the exposure of the brand and to cooperate with the Internet celebrities for driving up the sales revenue; (2) the impact arising from the "College Students Advertising Festival" (大學生廣告藝術節) in spring to continue to explore and expand the market shares in the young generation segment, to deepen the recognition and association of the post-95 and the post-00 generations with anti-hair fall concept with emphasis on the core philosophy of Bawang brand in anti-hair fall and hair-care and receptive attitude towards the rejuvenated Bawang brand so as to achieve the purposes of advertising and promoting the brand; (3) the publicity and promotion of Bawang branded products through new media, internal media and word-of-mouth of key opinion leaders; and (4) further focus of promotion in Bawang anti-hair fall, natural herbal and amino acid as well as Bawang antiseptic product series to enhance the Group's sales revenue.

For Royal Wind branded product series, the Group will continue to make good efforts to promote its brand image to cater for the trendy lifestyle of young customers. We mainly promote the fragrance products series of this brand in 2020, and will sell our branded products through traditional sales channels, the exclusive zones inside the contracted supermarkets and the online flagship stores.

For Litao branded product series, we mainly promote our antiseptic laundry detergents and shower gel in order to execute the plan to satisfy the market needs in the midst of the epidemic and to enhance the Group's revenue.

For conventional channels, the Group will continue to deepen cooperation and interaction with distributors by: (1) regularly updating our stimulating sales policies and reinforcement of supports to key customers for the purpose of stabilizing the sales from the distributor channel; (2) launching of antiseptic products for developing unexplored market in the traditional channel; (3) providing substantial supports to exclusive zone channel through heavy promotion of anti-hair fall, amino acid and antiseptic new product series so as to enhance the sales revenue through this channel; and (4) endeavoring to develop new sales channel, to obtain more OEM orders and to encourage staff members to seek to expand group sales customers.

As to the online sales channel, the Group hopes to achieve stable sales growth in the future. For our own online flagship stores, the Group will continue to create signature anti-hair fall and hair-care product series. In its marketing and promotion plans, the Group will broadcast commercial videos featuring our product range in different social media such as Tik Tok, Kwai and Taobao live. For the online distributors, the Group will select some quality and potential online platforms and distributors and to provide them with higher sales and marketing expenses as so to enhance sales revenue and rate of return.

Apart from this, the Group intends to further tap into the potential of social media e-commerce. The Group will continue to develop the social media platforms such as WeChat Small App to enhance sales revenue. The Group will make use of potential user-group networks and user-to-user connections in other platforms for increase of sales revenue.

For production management, we strive to keep our customer satisfied with the quality of our products. While we uphold quality of products, we will at the same time continue to reduce spoilage, lower the production costs, increase the turnover of production materials and minimize the inventory level. We will continue to make good use of our management skills, advanced production equipment and spare production facilities and capacities for expanding an original equipment manufacturer (OEM) business. Additionally, having considered the production requirements, we will seek to enhance the utilization rate of the production floor area and optimize the storage space. We believe that through the integration of production resources to achieve greater value enhancement, we can create more revenue for our shareholders.

As part of the business expansion plan, the Group will continue to explore the possibility of engaging 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 2019	31 December 2018
	RMB in million	*RMB in million*
Cash and cash equivalents	**102.2**	65.5
Total loans	**9.7**	12.6
Total assets	**290.2**	283.2
The gearing ratio[1]	**3.3%**	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 2019, 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 2019.

CAPITAL COMMITMENT

As at 31 December 2019, the capital commitment of the Group amounted to approximately RMB0.3 million.

CHARGE OF ASSETS

As at 31 December 2019, buildings with carrying values of approximately RMB3.2 million (2018: RMB3.4 million) were pledged to secure banking facilities granted to the Group. During the year under review, the Group obtained the banking facilities of approximately RMB500 million. As at 31 December 2019, banking facilities of approximately RMB500 million were unutilised and available for the Group's future financing.

TRADE AND OTHER PAYABLES

As at 31 December 2019, the trade and other payables of the Group was approximately RMB75.7 million (2018: RMB81.4 million). The decrease was primarily due to the decrease of the promotion fee payables and non-income tax payables, but such decrease was partially offset by the increase of trade payables. For the two years ended 31 December 2019, 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

Save for the matters relating to the outbreak of the disease caused by the COVID-19 virus as described above and also in the Company's business update announcement dated 21 February 2020, which may adversely affect the financial results of the Group for the six months ending 30 June 2020, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 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 2019.

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 2019 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 2019 after taking into account matters contained in 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, 29 May 2020. The register of members of the Company will be closed from Saturday, 23 May 2020 to Friday, 29 May 2020 (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, 22 May 2020.

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 2019 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, 31 March 2020

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.