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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

INTERIM RESULTS HIGHLIGHTS

- Revenue was RMB930.8 million, representing an increase of 36.7% from RMB681.1 million in 1H2009
- Profit attributable to equity shareholders was RMB147.1 million, representing an increase of approximately 47.1% from RMB100.0 million in 1H2009
- Basic earnings per share was RMB0.05 which is the same compared to that in 1H2009
- Interim dividend of HK1.5 cents per share
- Special interim dividend of HK2.5 cents per share

The board of directors (the "**Board**" or the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the six months ended 30 June 2010 ("**1H2010**") together with comparative figures for the corresponding period in 2009 ("**1H2009**"). These consolidated interim financial statements have not been audited, but have been reviewed by the Company's independent auditors and the audit committee of the Company (the "**Audit Committee**").

* *for identification purpose only*

Consolidated Income Statement

For the six months ended 30 June 2010 — unaudited
(Expressed in Renminbi)

	Note	For the six months ended 30 June 2010 RMB'000	2009 RMB'000
Turnover	5	**930,810**	681,090
Cost of sales		**(311,658)**	(230,364)
Gross profit		**619,152**	450,726
Other net income/(loss)		**2,534**	(2,069)
Selling and distribution costs		**(382,063)**	(284,103)
Administrative expenses		**(53,435)**	(36,016)
Profit from operations		**186,188**	128,538
Finance income	6(a)	**1,712**	916
Finance costs	6(a)	**(4,717)**	(214)
Net finance (costs)/income	6(a)	**(3,005)**	702
Profit before taxation	6	**183,183**	129,240
Income tax	7	**(36,067)**	(29,228)
Profit for the period attributable to the equity shareholders of the Company		**147,116**	100,012
Earnings per share (RMB yuan)	9		
Basic		**0.05**	0.05
Diluted		**0.05**	0.05

Details of dividends payable to equity shareholders of the Company are set out in Note 8.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010 — unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Profit for the period attributable to the equity shareholders of the Company	**147,116**	100,012
Other comprehensive income for the period		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(10,859)**	(183)
Total comprehensive income for the period attributable to the equity shareholders of the Company	**136,257**	99,829

Consolidated Balance Sheet

At 30 June 2010 — unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2010** *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Non-current assets			
Plant and equipment		**47,595**	39,330
Prepaid advertising fee		**4,233**	6,081
		51,828	45,411
Current assets			
Inventories		**72,948**	60,384
Trade and other receivables	10	**465,129**	534,009
Pledged deposits	11	**220,000**	162,012
Cash and cash equivalents		**1,698,218**	1,742,523
		2,456,295	2,498,928
Current liabilities			
Trade and other payables	12	**297,361**	293,839
Bank loans and overdrafts	13	**211,288**	158,490
Amounts due to related parties		**2,142**	5,896
Current taxation		**21,500**	31,820
		532,291	490,045
Net current assets		**1,924,004**	2,008,883
Total assets less current liabilities		**1,975,832**	2,054,294

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000* (audited)
Non-current liabilities		
Deferred tax liabilities	**16,058**	20,062
Net assets	**1,959,774**	2,034,232
Capital and reserves		
Share capital	**256,134**	256,134
Reserves	**1,703,640**	1,778,098
Total equity	**1,959,774**	2,034,232

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital *RMB'000*	**Share premium** *RMB'000*	**PRC statutory reserves** *RMB'000*	**Capital reserve** *RMB'000*	**Merger reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2009	—	—	49,887	—	8,468	4,949	251,224	314,528
Changes in equity for the six months ended 30 June 2009:								
Issue of new shares	1	—	—	—	—	—	—	1
Total comprehensive income for the period	—	—	—	—	—	(183)	100,012	99,829
Dividends declared during the period	—	—	—	—	—	—	(249,680)	(249,680)
Equity settled share-based transactions	—	—	—	969	—	—	—	969
Balance at 30 June 2009 and 1 July 2009	1	—	49,887	969	8,468	4,766	101,556	165,647
Changes in equity for the six months ended 31 December 2009:								
Issue of new shares	256,133	1,342,774	—	—	—	—	—	1,598,907
Total comprehensive income for the period	—	—	—	—	—	80	264,132	264,212
Equity settled share-based transactions	—	—	—	5,466	—	—	—	5,466
Balance at 31 December 2009 and 1 January 2010	256,134	1,342,774	49,887	6,435	8,468	4,846	365,688	2,034,232
Changes in equity for the six months ended 30 June 2010:								
Total comprehensive income for the period	—	—	—	—	—	(10,859)	147,116	136,257
Dividends declared during the period	—	—	—	—	—	—	(216,108)	(216,108)
Equity settled share-based transactions	—	—	—	5,393	—	—	—	5,393
Balance at 30 June 2010	256,134	1,342,774	49,887	11,828	8,468	(6,013)	296,696	1,959,774

Notes

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK"), including compliance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 23 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements except for the accounting policy changes and the accounting policies for new transactions and events that are expected to be reflected in the 2010 annual financial statements. Details of these changes and the accounting policies for new transactions are set out in Note 2 and Note 3.

The preparation of an interim financial report in conformity with IAS 34 "Interim Financial Reporting" requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (the "Group") since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 April 2010.

2 Changes in accounting polices

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

- Improvements to IFRSs (2009)

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

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

3 Accounting policies for new transactions and events

The Group has applied the following accounting policy in accounting for the derivative financial instruments obtained in the interim period:

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

4 Segment reporting

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

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

However, the above operating segments of the Group are not identified as reportable segments for the six months ended 30 June 2010 and 2009 as the assets, the revenue, and the profit for the skin-care and other household and personal care products segment and the herbal tea products segment constituted less than 10% of the combined assets, the combined revenue and the combined segment results respectively of all the segments. The percentages are set out below:

	For the six months ended 30 June 2010		
	% of combined assets	**% of combined revenue**	**% of combined segment results**
Hair-care products	92.0	95.5	108.0
Skin-care and other household and personal care products	0.6	3.5	(2.1)
Herbal tea products	7.4	1.0	(5.9)
	100.0	100.0	100.0

	For the six months ended 30 June 2009		
	% of combined assets	% of combined revenue	% of combined segment results
Hair-care products	99.9	99.4	98.6
Skin-care and other household and personal care products	0.1	0.6	1.4
	100.0	100.0	100.0

Among the hair-care products operating segment, the sales in mainland China and overseas are not reported as sub-segments for the six months ended 30 June 2010 and 2009 as the assets related to overseas sales, constituted only 2.6% of the combined assets of the hair-care products operating segment as of 30 June 2010 (as of 30 June 2009: 3.8%), and the revenue and the profit from overseas constituted only 4.7% and 8.0% of the combined revenue and the combined segment results of hair-care products operating segment respectively for the six months then ended (six months ended 30 June 2009: 4.6% and 7.7%).

5 Turnover

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

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Hair-care products	**889,669**	643,761
Skin-care and other household and personal care products	**32,139**	37,329
Herbal tea products	**9,002**	—
	930,810	681,090

6 Profit before taxation

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(a) Finance income and costs:		
Finance income		
Interest income on bank deposits	**(1,712)**	(916)
Finance costs		
Interest on bank borrowings	**1,338**	—
Bank charges on bank borrowings	**2,016**	—
Net foreign exchange losses	**1,363**	214
Subtotal	**4,717**	214
Net finance costs/(income)	**3,005**	(702)

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(b) Staff costs:		
Salaries, wages and other benefits	**52,436**	36,075
Equity-settled share-based payment expenses	**5,393**	969
Contributions to defined contribution retirement plan	**2,620**	2,551
	60,449	39,595

Staff costs included directors' remuneration.

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

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

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(c) Other items:		
Depreciation	**3,831**	3,122
Auditors' remuneration	**700**	2,052
Cost of inventories*	**311,658**	230,364
(Reversal of impairment loss)/Impairment loss for bad and doubtful debts	**(286)**	903

* Cost of inventories includes RMB19,020,072 and RMB15,527,067 for the six months ended 30 June 2010 and 2009 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 Income tax expenses

Income tax expenses in the consolidated income statement represent:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the period	**24,945**	21,314
Current tax — Hong Kong income tax		
Provision for the period	**2,681**	1,482
Deferred tax — PRC income tax		
Origination of temporary differences	**8,441**	6,432
Income tax expenses	**36,067**	29,228

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

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

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

(c) Pursuant to the Implementation Rules of the CIT Law, overseas investors to foreign investment companies ("FIE") shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which is the beneficiary owner holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. On this basis, the Group has made provision of withholding income tax on the distributable profits generated by Bawang Guangzhou for the six months ended 30 June 2010 and 2009.

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

(e) The provision for Hong Kong Profits Tax was made by Hong Kong Bawang International Trading Limited ("Bawang Trading") and was calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2010 (six months ended 30 June 2009: 16.5%).

8 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Interim dividend recommended and declared after the interim period of HK$1.5 cents per ordinary share (six months ended 30 June 2009: nil)	**38,063**	—
Special dividend recommended and declared after the interim period of HK$2.5 cents per ordinary share (six months ended 30 June 2009: nil)	**63,437**	—
	101,500	—

The interim and special dividends recommended and declared after the balance sheet date have not been recognised as a liability at the balance sheet date.

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$4.25 cents per ordinary share (six months ended 30 June 2009: RMB0.12 per ordinary share)	**108,054**	249,680
Special dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$4.25 cents per ordinary share (six months ended 30 June 2009: nil)	**108,054**	—
	216,108	249,680

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2010 of RMB147,116,000 (six months ended 30 June 2009: RMB100,012,000) and the weighted average of 2,905,000,000 ordinary shares (six months ended 30 June 2009: 2,100,000,000 ordinary shares, after adjusting for the capitalisation issue in 2009) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2010 of RMB147,116,000 and the weighted average number of ordinary shares (diluted) of 2,914,719,869 shares after adjusting for the effect of deemed issue of shares under the Company's Pre-IPO Share Option Scheme.

The Company's Pre-IPO share options were granted on 8 June 2009 and did not give rise to any dilution as at 30 June 2009. Therefore, the diluted earnings per share were the same as the basic earnings per share as at 30 June 2009.

10 Trade and other receivables

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Trade debtors and bills receivable	**322,253**	375,165
Prepayment for purchase of raw materials	**2,010**	2,017
Prepaid advertising fee	**129,103**	150,622
Derivative financial instruments	**1,399**	—
Other receivables	**10,364**	6,205
	465,129	534,009

The credit terms granted by the Group to customers generally range from 30 days to 90 days. All of the trade and other receivables are expected to be recovered within one year.

An ageing analysis of trade debtors and bills receivable by due date is as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Current	**277,856**	342,332
Less than 3 months past due	**42,307**	31,348
More than 3 months but less than 6 months past due	**3,010**	1,911
More than 6 months but less than 12 months past due	**29**	793
More than 12 months past due	**415**	431
	323,617	376,815
Less: impairment loss for doubtful debts	**(1,364)**	(1,650)
	322,253	375,165

The movement in the allowance for impairment in respect of trade debtors is as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Balance at 1 January	**1,650**	101
Impairment loss recognised	**—**	1,549
Reversal	**(286)**	—
Balance at 30 June/31 December	**1,364**	1,650

11 Pledged deposits

The balance as at 30 June 2010 represented the bank deposits of RMB220,000,000 pledged by Bawang Guangzhou in favour of China Merchants Bank Guangzhou Branch ("CMB Guangzhou Branch"), in respect of the bills payable accepted by CMB Guangzhou Branch. Payment of the bill will be due on 22 June 2011.

The pledged deposits amounting to HK$184,000,000 (equivalent to RMB162,012,000) as at 31 December 2009 were pledged by the Company in favour of China Merchants Bank Co., Ltd., in respect of the loan granted by it to Bawang Trading in 2009. It was released upon the repayment of the related loan on 18 June 2010.

12 Trade and other payables

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Trade payables	**108,738**	115,330
Receipts in advance	**59,333**	30,790
Promotion fee payable	**44,798**	49,812
Accrued payroll	**9,281**	11,977
Other payables and accruals	**75,211**	85,930
	297,361	293,839

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

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

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000* (audited)
Due within 1 month or on demand	**87,883**	84,662
Due after 1 month but within 3 months	**20,855**	30,668
	108,738	115,330

13 Bank loans and overdrafts

The balance as at 30 June 2010 mainly represented a short-term loan provided by China Merchants Bank Hong Kong Branch to Bawang International Group Holding (HK) Limited at an interest rate of 3.3% per annum. The loan will be due on 22 June 2011.

The balances as at 31 December 2009 mainly represented a loan of HK$180 million granted by China Merchants Bank to Bawang Trading on 18 June 2009, at an interest rate of 3-month Hong Kong Interbank Offered Rate plus a margin of 1.5%, with a one-year loan period. The loan was fully repaid on 18 June 2010. The related pledge of bank deposit of HK$184 million, which was provided by the Company, was released on the same day.

Bawang Guangzhou obtained a standby short-term bank facility of RMB100 million from Bank of China on 24 April 2009, which was reserved for general capital purpose. The bank facility expired on 24 April 2010 and there has been no draw-down from this bank facility during the period.

14 Commitments

(a) Capital commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
Contracted for	**2,584**	3,503

(b) At 30 June 2010, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
Leases expiring:		
Within 1 year	**1,615**	2,777
Between 1 and 2 years	**749**	686
Between 2 and 3 years	**760**	730
Between 3 and 6 years	**942**	1,217
Over 6 years	**660**	—
Total	**4,726**	5,410

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Directors are pleased to report that as the economic environment in the People's Republic of China ("China" or "PRC") continued to improve in the first half of 2010, the Company was able to capture the opportunities to increase both its revenue and profitability. Consequently, the total revenue for 1H2010 increased by 36.7% from RMB681.1 to RMB930.8 million. The profit attributable to the shareholders increased to RMB147.1 million, representing an increase of 47.1% from RMB100.0 million in the same period of 2009. Please refer to the Financial Review section of this interim results announcement for details of the operating performance of the Group.

The year of 2010 so far has been very challenging for the Company in both operational and non-operational perspectives, which is probably the most demanding period in the history of the Company. On the one hand, the Group has to deal with the operational aspects of its four newly launched branded products. On the other hand, the Group has to swiftly tackle all the non-operational issues arising from the media articles and/or news reports.

The Group has been able to strengthen our market share and to enhance our competitiveness. According to a research report by Euromonitor in June 2010, our Bawang (霸王) brand continued to hold the largest market share amongst all Chinese brands in the overall shampoo market in the PRC in terms of retails sales in 2009 of approximately 9.6%. For the Chinese herbal shampoo sub-segment, the market share of our Bawang (霸王) brand further increased from 46.3% in 2008 to 52.9% in 2009. Our Bawang (霸王) brand ranked number 1 and has been at the top position consecutively for four years since 2006.

In late April 2010, the Company announced the launch of new branded herbal drink product series known as "Bawang Herbal Drink". Mr. Donnie Yen (甄子丹) has been appointed as the brand ambassador of this new herbal drink product series. This herbal drink series offers three different flavors including energetic, light sugar and sugar free. The Directors believe that the variety of series would satisfy the needs of various market segments and consequently drive sales growth. The products have been available for sales since June 2010. After careful selection, the southern China was selected to be the first region to launch the products, the market includes Guangdong, Fujian, Guangxi, and Hainan. The successful launch of herbal drink products has signified a successful diversification of the Group into the "health care" segment.

For the new branded Chinese herbal anti-dandruff shampoo series, Royal Wind (追風系列), the Company continued to expand its sales and distribution network in 1H2010. As of 30 June 2010, the network comprised 481 distributors and 44 Key Account ("KA") retailers, covering 26 provinces and four municipalities. The products were successfully launched in Hong Kong in 2009 and are expected to launch in Singapore in the second half of this year.

In December 2009, we launched the Herborn Chinese herbal skincare products series (本草堂系列). This series of products aims at white-collar females aged between 25 and 45 who have high purchasing power and pursue a healthy and natural lifestyle. As of 30 June 2010, the Company has successfully set up sales channels for the Herborn Chinese herbal skincare products series (本草堂系列) in department stores and foreign supermarkets in four provinces and one municipality.

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

The newly launched Bawang Men's Series (霸王男士系列), with internationally renowned celebrity Mr. Jackie Chan (成龍) as the brand ambassador, has started to establish its position in the market. We have successfully set up dedicated sales counters for this new branded series in some supermarkets. We are pleased to report that the operating results of the new series were satisfactory.

In 1H2010, our Bawang (霸王) branded products were recognized by the Watsons Group of Singapore as the best selling traditional Chinese medical shampoo and was also honored with the "Most Wanted Award 2010" in the Health, Wellness and Beauty category. This is the second consecutive year that Bawang (霸王) brand has received this award. The Group's contributions to the cosmetics industry in China has also been recognised, the Group achieved the "China's Cosmetics Industry Leader Award" from the China Association of Fragrance Flavor and Cosmetic Industry in June 2010.

In relation to research and development work conducted by the Group, following the Group being awarded a new high-tech certificate in 2009 by the Guangdong Science and Technology Bureau for the Group's breakthrough development in the extraction of contents from a Chinese herb called polygonum (何首烏), another research and development project also in polygonum (何首烏) has been admitted in the National Torch Program of China (國家火炬計劃) in 1H2010, which shows that the Group's contributions in research and development has received further recognition. This national program aims to encourage innovation and to promote the development of high-tech industry in China. The admission to the program would enable the Group to have access to a series of supports provided by the central and local government, including technical support, favorable tax treatment, and protection of intellectual property.

The Group was approved by the Bureau of Science, Technology, and Information, Development and Reform Commission, and Economic and Trade Commission of Guangzhou Municipality to set up the development and research center for the technologies applied in the key projects in relation to daily-use chemicals made of Chinese herbal medicines in Guangzhou.

All these achievements serve as recognition of the Group's outstanding capability in the research and development of Chinese herbal medicine and the promotion of its industrialization development.

We are in the process of applying for the registration of a number of patents relating to researches about Chinese herbs and hair blackening. The successful registration of these patents will be a further testament to significant breakthrough of our research and development work.

RECENT EVENTS

There were a magazine article and a newspaper article in respect of the product safety and registration issues of the Group's certain products published on 14 July 2010 and 16 July 2010, respectively, which carried allegations that the Company found inaccurate and unfound. These articles have caused serious damages to the brand image of the Company and the confidence of the customers in the Company's products. If the response was not timely, it would be a serious crisis to the Company.

Following such events, the Company immediately initiated a series of appropriate measures in response to the crisis and successfully prevented from a series of consequences arising therefrom. As a result, no Bawang products were returned from the markets and no removal of Bawang products from the shelves occurred, which was because of the safety issues. An announcement was issued on 16 July 2010 by the national authority, the State Food and Drug Administration of China, within three days after such event, stating that Bawang's products "will not harm the health of the consumers". The event has come to an end since then.

We are of the view that the contents in the relevant magazine article published by "Next Magazine" are malice and defamatory for the Group. Therefore, we have commenced legal proceeding in the High Court of Hong Kong to seek compensation from "Next Magazine" in relation to this event.

Although the negative effect of such events on customers will certainly affect the sales of products, the management believes that is temporary. If appropriate measures are taken, we believe that we will turn this crisis into an opportunity. Through the widespread and intensive media coverage of this event, the Bawang brand name has turned into a household name and even more well-known than the past. As long as we succeed in helping the consumers to scientifically understand 1, 4-dioxane and making the consumers believe that the Bawang products are safe and of high quality, more customers will be attracted to purchase Bawang products to satisfy their need to purse natural and healthy life style. We believe that we will be able to further enhance the sales and the market share of Bawang shampoo products.

Since 30 June 2010, there was no other important event affecting the Group except the events mentioned in the Recent Events paragraph and the Material Event Since the End of the Financial Period paragraph under the Management Discussion and Analysis section of this announcement.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's revenue amounted to RMB930.8 million, representing an increase of 36.7% as compared with RMB681.1 million during the same period in 2009.

The Group's core brand, Bawang (霸王), generated RMB711.8 million in revenue, which accounted for 76.5% of the Group's total revenue for 1H2010 and represented an increase of 13.6% as compared to the corresponding period last year.

The Chinese herbal anti-dandruff hair-care series, Royal Wind (追風), recorded a revenue of RMB186.6 million, which accounted for approximately 20.0% of the Group's total revenue for 1H2010.

The new branded Bawang Herbal Tea (霸王涼茶) generated RMB9.0 million since it was available for sales in June 2010, which accounted for 1.0% of the Group's total revenue for 1H2010.

Herborn (本草堂), Smerry (雪美人) and Litao (麗濤) generated a total revenue of RMB23.4 million or 2.5%.

We generally sell our products through extensive distribution and retail networks. During the period under review, sales to our distributors and retailers represented approximately 81.7% and approximately 18.3% of total revenue respectively.

We also sold our products in Hong Kong, Macao, Singapore, Malaysia, Myanmar, Thailand and United Arab Emirates. The sales to these markets outside the PRC accounted for 4.5% of our total revenue for 1H2010.

Cost of Sales

Cost of sales in 1H2010 amounted to RMB311.7 million, representing an increase of 35.3% as compared to RMB230.4 million for 1H2009. The overall increase in cost of sales was mainly due to the increase in volume of production which was driven by increased product demand.

Gross Profit

Gross profit increased by 37.4%, from RMB450.7 million in 1H2009 to RMB619.2 million in 1H2010. Gross profit margin increased from 66.2% in 1H2009 to 66.5% in 1H2010. Such increase was mainly due to the change in product mix and the decrease in the proportion of the cost of raw materials over total revenue, which was partially offset by the increase in the cost of packaging materials.

Selling and Distribution Costs

Distribution expenses increased by 34.5% to RMB382.1 million in 1H2010 because of the increased advertising fee in promoting our brands and products through various media channels.

Administrative Expenses

Administrative expenses for 1H2010 amounted to approximately RMB53.4 million, representing an increase of approximately 48.3% as compared with approximately RMB36.0 million in the same period in 2009. Such increase was mainly due to the increase in research and development expenses.

Profit from Operations

Profit from operations increased by 44.9% from RMB128.5 million in 1H2009 to RMB186.2 million in 1H2010. The Group's operating profit margin increased from 18.9% in 1H2009 to 20.0% in 1H2010. Such increase in profitability was largely due to the increase in sales and the lower proportion of costs of sales and selling and distribution costs over total revenue.

Income Tax

Income tax expenses increased by 23.6%, from RMB29.2 million in 1H2009 to RMB36.1 million in 1H2010. The effective income tax rate decreased from 22.6% for 1H2009 to 19.7% in 1H2010. The main reason for decreased effective tax rate being that the operating expenses were mostly deductible against the profit before taxation reported by the Group in 1H2010 and that the current effective tax rate reflects the normal tax position of the Group.

Profit for the Period Attributable to the Equity Shareholder

Profit attributable to equity shareholder increased by 47.1%, from RMB100.0 million in 1H2009 to RMB147.1 million in 1H2010. Net profit margin increased from 14.7% in 1H2009 to 15.8% in 1H2010 as the combined effect of the above analysis.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts conservative financial management policies and maintains a good and solid financial position.

As at 30 June 2010, the balance of cash and cash equivalent was approximately RMB1,698.2 million as compared with approximately RMB1,742.5 million as at 31 December 2009.

As at 30 June 2010, the total bank and other borrowings of the Group were approximately RMB211.3 million (31 December 2009: RMB158.5 million), which were wholly denominated in US Dollars.

As at 30 June 2010, the total assets of the Group were RMB2,508.1 million (31 December 2009: RMB2,544.3 million), which includes current assets amounted to RMB2,456.3 million (31 December 2009: RMB2,498.9 million). Total liabilities were RMB548.3 million (31 December 2009: RMB510.1 million), with bank borrowings amounting to RMB211.3 million (31 December 2009: RMB158.5 million). Total equity amounted to RMB1,959.8 million (31 December 2009: RMB2,034.2 million).

The gearing ratio (calculated as interest-bearing borrowings divided by total assets) of the Group as at 30 June 2010 was approximately 8.4% (31 December 2009: 6.2%).

MATERIAL ACQUISITION AND DISPOSAL

The Group did not engage in any material acquisitions or disposal of any of its subsidiaries or associated companies for 1H2010.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group has exported its goods to Hong Kong and certain Southeast Asian countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are predominantly denominated in Hong Kong Dollars, Reminbi and United States Dollars. 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 value of RMB against HK$ and other foreign currencies may fluctuate and is affected by factors such as changes in the PRC's political and economic conditions. The Directors are of the view that the Group conducts its business transactions principally in Reminibi, and thus the exchange risk at the Group's operational level is not significant. However, the Directors will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when required.

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2010, the Group had pledged bank deposits of RMB220.0 million in favour of China Merchants Bank Guangzhou Branch ("CMB Guangzhou Branch"), in respect of the bills payable accepted by CMB Guangzhou Branch. Payment of the bills will be due on 22 June 2011.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2010.

CAPITAL COMMITMENT

The Group had capital commitment amounting to RMB2.6 million as at 30 June 2010.

HUMAN RESOURCES

As at 30 June 2010, the Group had a total of approximately 3,795 employees (including staff members and contract personnel) in the PRC and Hong Kong. The Group reported staff costs of approximately RMB60.4 million for 1H2010.

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

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

To enable our employees to reach their full potential, we are committed to staff training and development. In 1H2010, the Group organized 11 in-house training classes with more than 600 participants in aggregate.

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

INTERIM DIVIDEND

The Board recommends and declares a special interim dividend of HK2.5 cent for each Share in addition to an interim dividend of HK1.5 cents for each Share for the six months ended 30 June 2010 to shareholders whose names appear on the register of members of the Company on Friday, 17 September 2010. The Directors expect the interim dividend to be payable on or about Tuesday, 28 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 13 September 2010 to Friday, 17 September 2010, both days inclusive, during which no transfer of Shares will be registered. To qualify for the interim dividend and the special dividend (which will be payable on or about Tuesday, 28 September 2010), shareholders of the Company must ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 10 September 2010.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 30 June 2010.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the six months ended 30 June 2010, the Directors did not at any time receive shares, debt securities including debentures of the Company or any of its subsidiaries by means of acquisition.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

On 14 July 2010 and 16 July 2010, a magazine article and a newspaper article were respectively published which carried, in the Company's views, inaccurate and unfounded allegations in relation to the product safety and the registration of certain products of the Group. Although the Company promptly published clarification announcements on the even dates and communicated with our distributors and customers via our sales channels, the said publications had a negative impact on our business operations and brand images. The Directors are of the view that such adverse impact may continue for an extended period of time and the Company is planning to utilise all efforts to restore normal business operations as soon as possible.

On 21 July 2010, the Company commenced an action in the Hong Kong High Court against Next Magazine Publishing Limited in respect of the article published in Next Magazine on 14 July 2010 concerning the Company's products. The Company will be seeking damages and compensation for loss of sales from Next Magazine Publishing Limited for defamation, malicious falsehood and slander of goods.

Apart from the events above, there has been no other important event affecting the Group since 30 June 2010.

BUSINESS OUTLOOK

The global economies and industries have continued to recover from the financial crisis which started in 2008. With the benefits of the PRC government's stimulus package, the Chinese economy has moved in a fast pace and has come out of recession faster than other economies in the world. The economic recovery has also triggered an increase in household income in China and accelerated urbanization. The Directors believe that such development will generate an increase in the consumer's demand in high-end quality HPC products. The Directors are confident that with the Company's leading position in the Chinese herbal shampoo market in China and its unique marketing positioning in Chinese herbal HPC products in the PRC, the Company should be able to take advantages of any opportunities to increase our revenue and our market shares. In view of this, the Directors would be prepared to deal with any uncertainties which may arise from the government's measures to cool off the property market in China and the volatile economic conditions in the western countries. We set out below our business development plans and strategies for the rest of this year.

For the Bawang (霸王) branded products, the publication of the magazine article by Next Magazine in mid-July 2010 has interrupted our business operations and harmed our brand images. While we consider that such negative effects may continue for an extended period of time, we believe that once we have succeeded in helping the consumers get a scientific understanding on the nature and effect of 1,4-dioxane, the recovery momentum may be faster than we anticipated because the events have caused widespread concern of the society which has made Bawang brand name known to all walks of life. We aim to make every effort to restore normal business operations, to turn the crisis into opportunity, and to minimize the impact associated with such matter as soon as possible. In particular, we will take a series of recovery plans for the rest of 2010 as follows:

1. To reinforce and strengthen the image of Bawang branded products;

2. To re-train sales representatives and promotion staff on the revised sales techniques for this 1,4-dioxane incident;

3. To re-educate our retailers, distributors and consumers on how to scientifically understand the nature and effect of 1,4-dioxane;

4. To re-design the packaging of the existing product series; and

5. To launch new and/or enhanced product series under the Bawang brand.

Notwithstanding the Group being affected by negative events, we will strive to maintain our leadership in the Chinese herbal shampoo market in China, to further increase the revenue through extensive coverage of our sales and distribution network in new areas, to deepen the penetration of the existing established regional markets, particularly those regions other than Southern China, to increase our sales to the same retailer and distributor, and to expand the revenue stream through the launch of new branded products and/or enhanced product sub-series.

For the Royal Wind Chinese herbal anti-dandruff shampoo series (追風系列), the Directors are pleased that its sales performance is generally in line with the pre-determined sales target and that the brand has successfully established its distribution network in 26 provinces and four municipalities within one year of its launch. We target to deepen the penetration of the existing established channels so as to increase the market share of this product in the Chinese herbal antidandruff shampoo market. We strive to build up this brand as another leading Chinese herbal shampoo within the next few years.

For the Herborn Chinese herbal skincare products series (本草堂系列) branded products, we have introduced four new sub-series into its product portfolio since the end of 2009. We are selling the products through department stores, hypermarket and dedicated shops. We will continue to expand the sales network of this brand. We plan to set up approximately 2,000 counters in cosmetics specialty shops on a nationwide basis in the PRC. In parallel with the channels expansion plan, we will enhance the brand image and recognition through various advertising and promotion programmes. We believe that Herborn would become a leading brand in the Chinese herbal skincare market as well as one of our key revenue contributors in two years' time.

For the new branded herbal tea product series Bawang Herbal Tea (霸王涼茶), we plan to enhance brand recognition through the assistance of our brand ambassador, Mr. Donnie Yen (甄子丹). Leveraging on the successful establishment of sales network in four provinces in southern China so far, we plan to further expand the sales network into the other 18 provinces in five different regions throughout the PRC by the end of this year. We believe that we would run the herbal tea segment on full scale starting from the beginning of 2011, and that the segment will become one of our key revenue contributors as early as next year.

In relation to new products, we may further launch a new branded Chinese herbal household cleaning product series later this year, which depends on the sales performance of the new product lines that we have earlier launched.

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

The Group leased a piece of land of approximately 500 Chinese acres in 2009 for Chinese herbal plantation in Guangdong province. The site preparation work has been completed and the seeds of the herbs have been sown. Under the current plan, the Group may get the first yield of Chinese herbs from its own plantations for production of our herbal HPC products as early as the end of 2010. The Group is looking for additional sites in other places in China for Chinese herbal plantation.

In line with the market diversification strategy, the Group will continue to pursue in overseas market development. The Group will enter Brunei later this year and will continue to explore potential markets in other overseas countries. For domestic market development, Bawang brand (霸王) has recently expanded its geographical coverage to Tibet, enabling the distribution network of the Group to cover every province and/or municipalities in China. The Group will continue to expand the distribution network for Royal Wind brand so that its market coverage can match that of Bawang brand (霸王).

We will continue to explore business opportunities that may involve acquisition of HPC related business, which either complement to our existing business and/or in line with our long term business development strategies.

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

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during 1H2010.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted and complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to Listing Rules during the period under review.

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

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company has also complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise. The primary duties of the Audit Committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the interim results of the Company contained in this announcement with the management of the Company and the Company's independent auditors and recommended its adoption by the Board. In addition, the Group's independent auditors, KPMG, has carried out a review of the Group's unaudited interim results for six months ended 30 June 2010 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Company (www.bawang.com.cn), irasia (www.irasia.com/listco/hk/bawang/) and the Stock Exchange's website (www.hkex.com.hk). The interim report for the six months ended 30 June 2010 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 23 August 2010

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