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 2011

The board (the "**Board**") of directors (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 2011 together with comparative figures for the corresponding period in 2010.

* *for identification purpose only*

Consolidated income statement

for the six months ended 30 June 2011 — unaudited
(Expressed in Renminbi)

	Note	For the six months ended 30 June 2011 RMB'000	2010 RMB'000
Turnover	5	**439,843**	930,810
Cost of sales		**(302,826)**	(311,658)
Gross profit		**137,017**	619,152
Changes in fair value less costs to sell of biological assets		**1,596**	—
Other revenue		**1,275**	—
Other net (losses)/income		**(237)**	2,534
Selling and distribution costs		**(458,557)**	(382,063)
Administrative expenses		**(44,737)**	(53,435)
(Loss)/profit from operations		**(363,643)**	186,188
Finance income	6(a)	**14,348**	1,712
Finance costs	6(a)	**(3,154)**	(4,717)
Net finance income/(costs)	6(a)	**11,194**	(3,005)
(Loss)/profit before taxation	6	**(352,449)**	183,183
Income tax credit/(expense)	7	**57,593**	(36,067)
(Loss)/profit for the period attributable to the equity shareholders of the Company		**(294,856)**	147,116
(Loss)/earnings per share (RMB yuan)	9		
Basic		**(0.10)**	0.05
Diluted		**(0.10)**	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 2011 — unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(Loss)/profit for the period attributable to the equity shareholders of the Company	**(294,856)**	147,116
Other comprehensive income for the period		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(13,587)**	(10,859)
Total comprehensive income for the period attributable to the equity shareholders of the Company	**(308,443)**	136,257

Consolidated balance sheet

at 30 June 2011 — unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2011** **RMB'000**	At 31 December 2010 *RMB'000*
Non-current assets			
Property, plant and equipment		**149,244**	60,136
Prepaid advertising fee		**8,948**	2,437
Biological assets		**2,024**	—
Deferred tax assets		**80,232**	27,089
		240,448	89,662
Current assets			
Inventories	10	**121,008**	84,216
Biological assets		**190**	—
Trade and other receivables	11	**242,240**	440,060
Pledged deposits	12	**—**	220,000
Cash and cash equivalents		**875,021**	1,186,544
Income tax recoverable		**18,794**	12,892
		1,257,253	1,943,712
Current liabilities			
Trade and other payables	13	**210,522**	228,793
Bank loans and overdrafts	14	**—**	209,787
Amounts due to related parties		**2,486**	3,363
		213,008	441,943
Net current assets		**1,044,245**	1,501,769
Total assets less current liabilities		**1,284,693**	1,591,431

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Non-current liabilities		
Deferred tax liabilities	**2,031**	2,031
Net assets	**1,282,662**	1,589,400
Capital and reserves		
Share capital	**256,380**	256,380
Reserves	**1,026,282**	1,333,020
Total equity	**1,282,662**	1,589,400

Consolidated statement of changes in equity

for the six months ended 30 June 2011 — 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/ (accumulated losses)** *RMB'000*	**Total equity** *RMB'000*
Balance at 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 and 1 July 2010	256,134	1,342,774	49,887	11,828	8,468	(6,013)	296,696	1,959,774
Changes in equity for the six months ended 31 December 2010:								
Total comprehensive income for the period	—	—	—	—	—	(7,638)	(265,087)	(272,725)
Dividend declared during the period	—	—	—	—	—	—	(101,600)	(101,600)
Share issued under share option scheme	246	5,865	—	(5,180)	—	—	—	931
Equity settled share-based transactions	—	—	—	3,020	—	—	—	3,020
Balance at 31 December 2010 and 1 January 2011	256,380	1,348,639	49,887	9,668	8,468	(13,651)	(69,991)	1,589,400
Changes in equity for the six months ended 30 June 2011:								
Total comprehensive income for the period	—	—	—	—	—	(13,587)	(294,856)	(308,443)
Equity settled share-based transactions	—	—	—	1,705	—	—	—	1,705
Balance at 30 June 2011	256,380	1,348,639	49,887	11,373	8,468	(27,238)	(364,847)	1,282,662

Notes

1 Basis of preparation

The 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 28 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 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 2011 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 2010 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 2010 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 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2011.

2 Changes in accounting polices

The IASB has issued 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 developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of the interim financial report.

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

3 Accounting policies for new transactions and events

The Group has applied the following accounting policy in accounting for the biological assets in the interim period:

Biological assets

Biological assets are measured at fair value less costs to sell, with any change therein recognized in profit or loss. Costs to sell include all incremental costs directly attributable to the sale of the biological assets, excluding finance costs and income taxes.

4 Segment reporting

The Group manages its business by a mixture of both product lines and geography. 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 presented the following three reportable segments:

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

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of herbal tea products, assistance provided by one segment to another, including sharing assets, is not measured.

The measure used for reporting segment profit is "adjusted (loss)/profit from operations". To arrive at adjusted (loss)/profit from operations, the Group's (loss)/profit is further adjusted for the items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration expenses. The Group's senior executive management is provided with segment information concerning segment revenue and segment (loss)/profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the six-month periods ended 30 June 2011 and 2010 is set out as below:

	Hair-care products		**Skin-care and other household and personal care products**		**Herbal tea products**		**Total**	
	For the six months ended 30 June		**For the six months ended 30 June**		**For the six months ended 30 June**		**For the six months ended 30 June**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue								
Revenue from external customers	**248,209**	889,669	**73,318**	32,139	**118,316**	9,002	**439,843**	930,810
Inter-segment revenue	**1**	—	**—**	—	**4,253**	—	**4,254**	—
	248,210	889,669	**73,318**	32,139	**122,569**	9,002	**444,097**	930,810
Reportable segment (loss)/profit								
Adjusted (loss)/profit from operations	**(242,075)**	206,588	**(70,436)**	(3,279)	**(43,904)**	(8,237)	**(356,415)**	195,072

(b) Reconciliations of reportable segment revenue and results

Revenue

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Reportable segment revenue	**444,097**	930,810
Elimination of inter-segment revenue	**(4,254)**	—
Consolidated turnover	**439,843**	930,810

Results

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Reportable segment (loss)/profit	**(356,415)**	195,072
Elimination of inter-segment profits	**(1,382)**	—
Changes in fair value less costs to sell of biological assets	**1,596**	—
Other revenue	**1,275**	—
Other net (losses)/income	**(237)**	2,534
Unallocated head office and corporate expenses	**(8,480)**	(11,418)
Finance income	**14,348**	1,712
Finance costs	**(3,154)**	(4,717)
Consolidated (loss)/profit before taxation	**(352,449)**	183,183

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets and non-current portion of prepaid advertising fee ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of the non-current portion of prepaid advertising fee.

	Revenues from external customers		**Specified non-current assets**	
	For the six months ended 30 June		**At 30 June**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**427,595**	888,839	**155,226**	47,527
Hong Kong	**7,591**	29,852	**2,966**	4,301
Singapore	**709**	7,425	**—**	—
Malaysia	**—**	3,131	**—**	—
Myanmar	**442**	660	**—**	—
The United Arab Emirates	**—**	903	**—**	—
Thailand	**2,602**	—	**—**	—
Australia	**904**	—	**—**	—
	12,248	41,971	**2,966**	4,301
	439,843	930,810	**158,192**	51,828

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 each significant category of revenue recognised in turnover during the respective periods is as follows:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Hair-care products	**248,209**	889,669
Skin-care and other household and personal care products	**73,318**	32,139
Herbal tea products	**118,316**	9,002
	439,843	930,810

6 (Loss)/profit before taxation

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(a) Finance income and costs:		
Finance income		
Interest income on bank deposits	**(7,216)**	(1,712)
Net foreign exchange gains	**(7,132)**	—
Subtotal	**(14,348)**	(1,712)
Finance costs		
Interest on bank borrowings	**3,154**	1,338
Bank charges on bank borrowings	**—**	2,016
Net foreign exchange losses	**—**	1,363
Subtotal	**3,154**	4,717
Net finance (income)/costs	**(11,194)**	3,005

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(b) Staff costs:		
Salaries, wages and other benefits	**109,274**	52,436
Equity-settled share-based payment expenses	**1,705**	5,393
Contributions to defined contribution retirement plan	**3,045**	2,620
	114,024	60,449

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	
	2011	2010
	RMB'000	*RMB'000*
(c) Other items:		
Depreciation	**6,460**	3,831
Auditors' remuneration	**300**	700
Cost of inventories*	**302,826**	311,658
Reversal of impairment loss for bad and doubtful debts	**(537)**	(286)

* Cost of inventories includes RMB17,368,000 and RMB19,020,072 for the six months ended 30 June 2011 and 2010 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 (credit)/expense

Income tax (credit)/expense in the consolidated income statement represents:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the period	**—**	24,945
Over-provision in respect of prior periods	**(509)**	—
Current tax — Hong Kong income tax		
Provision for the period	**—**	2,681
Over-provision in respect of prior periods	**(3,942)**	—
Deferred tax		
Origination of temporary differences	**(53,142)**	8,441
Income tax (credit)/expense	**(57,593)**	36,067

(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 income tax rate of 25% with effect from 1 January 2008.

In accordance with the Implementation Rules 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. The applicable income tax rate of Bawang Guangzhou in 2010 is 12.5%.

Bawang Guangzhou qualified as a new and high technology enterprise in 2009 and the qualification is valid for three years from 2009 to 2011. Therefore, Bawang Guangzhou is entitled to a preferential income tax rate of 15% in 2011.

(c) 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%.

(d) 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. The group did not make provision of withholding income tax for the six months ended 30 June 2011 since the PRC subsidiaries, both Bawang Guangzhou and Bawang Beverage, incurred losses during the interim period.

(e) The provision for Hong Kong Profits Tax was made by Hong Kong Bawang International Trading Limited ("Bawang Trading"). Its applicable income tax rate is 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	
	2011	2010
	RMB'000	*RMB'000*
No interim dividend recommended and declared after the interim period for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$1.5 cents per ordinary share)	—	38,063
No special dividend recommended and declared after the interim period for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$2.5 cents per ordinary share)	—	63,437
	—	101,500

(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	
	2011	2010
	RMB'000	*RMB'000*
No final dividend in respect of the previous financial year, approved and paid during the interim period for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$4.25 cents per ordinary share)	—	108,054
No special dividend in respect of the previous financial year, approved and paid during the following interim period for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$4.25 cents per ordinary share)	—	108,054
	—	216,108

9 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2011 of RMB294,856,000 (profit for six months ended 30 June 2010: RMB147,116,000) and the weighted average of 2,907,820,720 ordinary shares (six months ended 30 June 2010: 2,905,000,000 ordinary shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

The calculation of diluted loss per share for the six months ended 30 June 2011 does not assume the exercise of the Company's share options as the effect is anti-dilutive.

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

10 Inventories

(a) Inventories in the balance sheet comprise:

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Raw materials	**25,227**	12,552
Work in progress	**14,233**	6,229
Finished goods	**57,875**	40,987
Packing materials	**19,068**	19,527
Others	**4,605**	4,921
	121,008	84,216

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**228,289**	311,658
Write down of inventories	**85,348**	—
Reversal of write-down inventories	**(10,811)**	—
	302,826	311,658

11 Trade and other receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade debtors and bills receivable	**87,576**	314,481
Less: allowance for doubtful debts (Note 11(b))	**(1,255)**	(1,792)
	86,321	312,689
Prepayment for purchase of raw materials	**8,784**	2,656
Prepayment for purchase of fixed assets	**17,477**	18,478
Prepaid advertising fee	**114,510**	87,021
Other receivables	**15,148**	19,216
	242,240	440,060

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

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

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Current	**63,374**	278,427
Less than 3 months past due	**18,704**	29,798
More than 3 months but less than 6 months past due	**3,913**	5,130
More than 6 months but less than 12 months past due	**1,059**	553
More than 12 months past due	**526**	573
	87,576	314,481
Less: impairment loss for doubtful debts	**(1,255)**	(1,792)
	86,321	312,689

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

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Balance at 1 January	**1,792**	1,650
Impairment loss recognised	**—**	149
Uncollectible amounts written off	**—**	(7)
Reversal	**(537)**	—
Balance at 30 June/31 December	**1,255**	1,792

12 Pledged deposits

The balance as at 31 December 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. Such pledged deposits were released upon the payment of the bills payable by Bawang Guangzhou on 22 June 2011.

13 Trade and other payables

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Trade payables	**42,040**	58,673
Receipts in advance	**49,079**	57,460
Promotion fee payable	**36,036**	33,092
Accrued payroll	**18,859**	18,525
Derivative financial instruments	**—**	3,757
Other payables and accruals	**64,508**	57,286
	210,522	228,793

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 of the balance sheet date:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Due within 1 month or on demand	**32,069**	40,390
Due after 1 month but within 3 months	**9,971**	18,283
	42,040	58,673

14 Bank loans and overdrafts

The balance as at 31 December 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 was repaid on 22 June 2011.

15 Commitments

Capital commitments outstanding at 30 June 2011 not provided for in the financial statements were as follows:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Contracted for	**86,619**	27,923

Business Review

The total revenue of the Group for the first half of 2011 ("1H2011") was RMB439.8 million, representing a decrease of 52.7% as compared to the first half of 2010. The Group has recorded a loss of RMB294.9 million for 1H2011 as compared to the profit attributable to the shareholders of RMB147.1 million in 1H2010. Please refer to the Financial Review section of this announcement for details of the operating performance of the Group.

The Directors would like to indicate that in the first half of 2010 ("1H2010"), the Group was operating and developing its businesses under normal conditions. The results that we achieved for 1H2010 were generally in line with the management's expectation. Ever since the dioxane incident in July 2010, the Group has made enormous efforts in an attempt to recover from and mitigate the negative impact on its businesses arising from such incident. Consequently, the operating results of the first six months of the Group significantly declined when compared to the same period in 2010.

Towards the end of 2010, the Group started planning for a brand revitalization programme for recapturing brand equity, and identifying and stabling new sources of brand equity for Bawang branded portfolio along the lines of Bawang and Royal Wind branded series (霸王及追風品牌). We started communicating with the distributors and retailers for seeking their inputs, and streamlining the level of the inventories in the channels.

In early 2011, the Group commenced a changeover programme for inventories of Bawang branded (霸王品牌) products in the channels in three phases starting from major retailer and distributors in the modern trade channel to the distributors in the low-tier cities. The programme was almost completed by the end of July.

In June 2011, we announced the launch of three core Bawang branded product series (霸王系列) with a theme to promote the proactive concept of "prevention is always better than cure". We continue to use Mr Jacky Chan (成龍) as the brand ambassador for Bawang brand (霸王品牌) image. In line with the personal image of Mr. Jacky Chan (成龍) as representative of Chinese "Kungfu (功夫)" culture, we believe that he will successfully portray the brand image of Bawang as representative of traditional Chinese herbal medicine. In addition, the enhanced version of Anti-hair Falling series (防脱系列), has the functionality of preventing young consumers from suffering premature hair falling caused by the increased pressure and pace in life.

In June 2011, we also released two new series for sale, viz. Hair Blackening series (烏髮系列) and Nutri-reparing series (滋補系列), which mainly target at consumers for the purpose of preventing grey hair and/or relieving problems arising from chemical dyed and permed hair. To effectively promote and display the natural and healthy image of the two Bawang branded shampoo series, the Group appoints "Korean Top Beauty" movie star Ms. Kim Hui Seon (金喜善) as the brand ambassador for the two brand-new product series. We intend to extend the market to also cover female consumers. The Group also rolls out extensive promotional and publicity programmes through television, newspapers, magazines and the internet.

As of 30 June 2011, the Bawang brand(霸王品牌) distribution network comprised around 577 distributors and 45 KA retailers, covering 27 provinces and four municipalities. Furthermore, the products are sold in Hong Kong, Macau, Singapore, Myanmar, Thailand, Malaysia, Brunei, and the products have also successfully been launched in Australia.

Out of the four original Royal Wind Chinese herbal anti-dandruff shampoo series (追風系列), we have enhanced one of the series into "Fresh and Energetic series (清爽活力). We have also rolled out two new product series, namely "Anti-itch Shampoo series (舒緩止癢洗髮系列)" and "Aqua-nourishing shampoo series (多效水潤洗髮系列)", which are targeted at young and fashionable consumers with dandruff problem. We have appointed new generation pop music singer Mr. Han Geng (韓庚) as the brand ambassador for Royal Wind (追風) brand series for promoting the images of Royal Wind (追風) brand. With his energetic, healthy and fashionable image, we believe that he would successfully portray the brand personality of Royal Wind (追風) and increase its brand awareness and recognition. In line with the brand positioning of Royal Wind (追風), we strategically select the publicity channel through the modern medium such as internet, public transport TV commercials, mobile phone messaging, etc.

As of 30 June 2011, the distribution network comprised approximately 496 distributors and 43 KA retailers, covering 27 provinces and four municipalities. Furthermore, the products are sold in Hong Kong and Singapore.

As of 30 June 2011, the Litao (麗濤) brand distribution network comprised approximately 416 distributors, covering 26 provinces and four municipalities. The successful launch of the Litao (麗濤) range of enhanced products has signified a successful extension of the Group's shampoo business to the mid-low end segment in the PRC market which satisfies the demands of consumers and achieves the Company's goal to expand the consumer market.

In relation to Chinese herbal skincare products series, Herborn (本草堂), aims at white-collar females aged between 25 and 45 who have high purchasing power and pursue a healthy and natural lifestyle. The internationally renowned celebrity Ms. Faye Wong (王菲) has renewed the contract with the Group as the brand ambassador of Herborn brand (本草堂) and will continue to help us promote the brand image. The Group has been re-appointed as exclusive sponsor of skincare products to the Miss World Pageant China. Apart from providing our Herborn Chinese herbal skincare products (本草堂系列) for the use of the contestants, we also conducted a series of skincare seminars for the contestants to understand the concepts and benefits of traditional Chinese medicine. As of 30 June 2011, the Group successfully set up sales and distribution networks comprised approximately 108 distributors and 14 retailers covering 27 provinces and four municipalities with 86 counters in department stores and/or hypermarkets and approximately 2,100 counters in cosmetics specialty shops in China. In addition, the products have exclusively been sold at approximately 270 Mannings Stores in Hong Kong since November 2010.

In relation to Chinese herbal beverage product series — Bawang Herbal Tea (霸王涼茶), the Group continued to expand its sales and distribution network in the first half of 2011. As of 30 June 2011, the distribution network comprised approximately 480 distributors, covering 26 provinces and four municipalities.

The Group has retained Mercer Consulting as our advisor to enhance our business processes, and optimize the supply chain and human resource management since May 2011. The name of the project is known as "**Stepping Stone**". The project is in good progress.

So far this year, the Group has taken a series of strategic measures specifically for each of our core brands as described above. The Directors believe that such measures have strengthened the foundation for recovery and development of our business. Please refer to the Outlook section of this announcement for discussions of plans and strategies for the portfolio of our various brands.

According to a research report by Euromonitor in June 2011, our range of products (including Bawang (霸王) and Royal Wind (追風)) continued to hold the largest market share among all Chinese brands in the overall shampoo market in the PRC in terms of retail sales in 2010 of approximately 7.2%. For the Chinese herbal shampoo sub-segment, the market share of our range of products was 35.8% and ranked No.1 in the Chinese herbal shampoo market in the PRC. Accordingly, our range of products has been in the leading position consecutively for five years since 2006.

In terms of the recognition gained by the Group, the Guangdong Provincial Bureau of New Hi-Tech Products has awarded the Certificate of New Hi-tech Product series for the following products:

1. Bawang Anti-Hair Fall Shampoo (霸王防脱系列洗髮液)

2. Bawang Hair Blackening Shampoo (霸王烏髮系列洗髮水)

3. Royal Wind Anti-Dandruff Shampoo (追風去屑系列洗髮水)

In January 2011, Mr Chen Qiyuan was recognised by the Department of Culture of Guangdong Province in a provincial intangible cultural heritage project as Representative Successor of Chinese Herbal Tea 「涼茶項目省級非物質文化遺產代表性傳承人」

In May 2011, the Group obtained an award of achievement from the Bureau of Science and Information Technology of Guangzhou for an extraction method developed by the Group in dealing with ecliptic (墨旱蓮皂苷類化合物).

In June 2011, the Group obtained a confirmation of attainment of leading level from the Guangdong Light Industry Association for a project in the application of ecliptic (墨旱蓮皂苷類化合物) in the anti-hair falling and hair regrowing into industrialisable products.

The Group has been appointed as a committee member of China Quality Assurance Council for a two year term commencing from 8 June 2011.

For good development of the industry, we have established a joint research laboratory with the Guangzhou University of Chinese Medicine to study the pharmacological efficacy of Chinese Herbal Medicine-based consumer products since June 2011.

These achievements serve as recognition of the Group's strong capability in the research, development and industrialization of Chinese herbal medicine.

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 which will be a further testament to the recognition and breakthrough in our research and development of the Company.

Recent Events

We are of the view that the contents in the relevant magazine article published by Next Magazine on 14 July 2010 are defamatory of the Group and/or amount to malicious falsehood. Therefore, we have commenced legal proceedings in the High Court of Hong Kong against Next Magazine seeking, inter alia, damages and an injunction to restrain Next Magazine from publishing such contents or similar contents. The legal proceedings against Next Magazine are still continuing.

Financial Review

Revenue

During the period under review, the Group's revenue amounted to RMB439.8 million, representing a decrease of 52.7% as compared to RMB930.8 million in 1H2010. The sales decline in 1H2011 was principally attributable to the substantial decline in the sales of the Group's shampoo products in the first half of 2011 as a result of and in connection with the "dioxane incident" as disclosed in the announcement of the Company dated 14 July 2010. But such sales decline was partially offset by the increase in sales of two branded products, viz. Bawang Herbal Tea and Herborn.

The Group's core brand, Bawang (霸王), generated RMB146.7million in revenue, which accounted for 33.4% of the Group's total revenue for 1H2011, and represented a decrease of 79.4% as compared to 1H2010.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind (追風), recorded a revenue of RMB84.8 million in 1H2011, which accounted for approximately 19.3% of the Group's total revenue, and represented a decrease of 54.6% as compared to 1H2010.

The branded Chinese herbal drink of the Group, Bawang Herbal Tea (霸王涼茶), recorded a revenue of RMB118.3 million in 1H2011, which represents approximately 26.9% of the Group's total revenue. As Bawang Herbal Tea (霸王涼茶) was launched in April 2010, the total revenue generated for 1H2010 and 1H2011 by this branded products may not be directly comparable.

The branded Chinese herbal skincare series, Herborn (本草堂) generated a total revenue of RMB38.8 million, which accounted for approximately 8.8% of the Group's total revenue for 1H2011, and represented an increase of 2,938.0% as compared to 1H2010.

The nature-based branded shampoo and shower gel products series, Litao (麗濤) generated RMB48.5 million in revenue, which accounted for approximately 11.0% of the Group's total revenue for 1H2011, and represented an increase of 146.2% as compared to 1H2010. As the new product series of Litao (麗濤) were rolled out in October 2010, the total revenue generated for 1H2010 and 1H2011 by this branded products may not be directly comparable.

Smerry (雪美人) generated a total revenue of RMB2.7 million, which accounted for approximately 0.6% of the Group's total revenue for 1H2011.

We were selling our products through extensive distribution and retail networks. During the period under review, sales to our distributors and retailers represented approximately 86.3% and approximately 13.7% of the Group's total revenue respectively.

We launched our products in Hong Kong, Macao, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia in 1H2011. The sales to these markets outside the PRC accounted for 2.8% of our total revenue for 1H2011.

Cost of Sales

Cost of sales for 1H2011 amounted to RMB302.8 million, representing a decrease of 2.8% compared to RMB311.7 million for 1H2010. Such change was mainly due to the decrease in sales volume of shampoo products, but partially offset by the increase in sales volume of three branded products, namely Herborn (本草堂), Litao (麗濤) and Bawang Herbal Tea (霸王涼茶), and the provision of RMB74.5 million for write-down of inventories.

Gross Profit

During the period under review, the Group's gross profit decreased to RMB137.0 million, representing a decrease of 77.9% as compared to RMB619.2 million for 1H2010. The gross profit margin decreased from 66.5% for 1H2010 to 31.2% for 1H2011. Such decline was mainly due to the provision for write-down of inventories, the decrease in the sales of shampoo products to modern trade channel from which the profit margin is generally higher than that of the other channels, and the increased proportion of herbal tea products in the product mix as the profit margin of herbal tea is lower than that of HPC products.

Selling and Distribution Costs

Selling and distribution costs increased to RMB458.6 million for 1H2011, representing an increase of 20.0% as compared to that for 1H2010. Such increase is due to the increased cost for the promotion of our Bawang Herbal Tea (霸王涼茶), the advertising expenses of Royal Wind (追風) and Bawang (霸王) new series, and the additional costs for sales and marketing promotional campaigns in relation to the restoration of consumer's confidence in the Group's products after occurrence of the "dioxane incident".

Administrative Expenses

Administrative expenses for 1H2011 amounted to approximately RMB44.7 million, representing a decrease of approximately 16.3% as compared with approximately RMB53.4 million in the same period in 1H2010. Such decrease was mainly due to the decrease in non-capitalizable research and development expenditures, option share-based payments, partially offset by the increases in salary, traveling and meeting expenses, and recruitment fee.

Loss from Operations

The Group recorded an operating loss of RMB363.6 million for 1H2011, as compared to the operating profit of RMB186.2 million for 1H2010. The Group's operating margin decreased from 20.0% for 1H2010 to –82.7% for 1H2011. The decrease was mainly due to the decrease in sales, increase in the proportion of costs of sales over the revenue and the increase in operating expenses.

Income Tax

The Company had an income tax credit of RMB57.6 million for 1H2011 as compared to income tax expenses of RMB36.1 million for 1H2010.

Provision for Inventories

Our accounting policy prescribes that inventories are stated at the lower of cost and net realizable value ("**NRV**"). In the event that NRV falls below cost, the difference is taken as provision for inventories. As at 30 June 2011, the amount of provision for write-down of inventories was RMB85.3 million (31 December 2010: RMB10.8 million). The Group recognised a loss of approximately RMB74.5 million for six months ended 30 June 2011 in respect of the write-down of inventories to their net realisable value, which have been included in cost of sales as mentioned above.

Loss for the Period Attributable to the Equity Shareholder

As a combined effect of the above, the Group recorded an attributable loss of RMB294.9 million for 1H2011, as compared to the attributable profit of RMB147.1 million for 1H2010.

Subsequent Events

On 26 July 2011, the Company has granted the 1,380,000 share options ("**Options**") to certain employees to subscribe for an aggregate of 1,380,000 ordinary shares of HK$0.10 each in the capital of the Company ("**Shares**") under its share option scheme ("**Scheme**") adopted on 20 May 2009. The Option shall entitle its holder to subscribe for an aggregate of 1,380,000 Shares upon exercise of such Options at an exercise price of HK$1.310 per share. The Options granted are exercisable in five equal tranches of 20% each per annum. Subject to the terms of the Scheme, the first tranche shall be exercisable anytime after the first anniversary of joining the Group. The remaining four tranches shall be exercisable anytime after the next four successive anniversaries.

Outlook

So far this year, the People's Bank of China has raised the reserve requirements repeatedly for six times and the benchmark interest rates repeatedly for three times. Nevertheless, China achieved a 9.6% GDP growth in 1H2011. The Directors believe that the Chinese economy is still in good shape. We could see that the consumer sentiment and demand for high quality products are robust and that there is a rising trend that many people are now looking for a natural and healthy lifestyle. Based on our core competences and unique competitive advantages in Chinese herbal shampoo and other Chinese herbal household and personal care products, the Company should be able to take advantages of this opportunity to recover our business, and to increase our revenue by offering high quality premium products to consumers. We have discussed the recovery and development efforts which we have made so far this year. We will continue to execute the plans that we have designed. Below is an outline our business development plans and strategies for the rest of 2011.

For Bawang (霸王系列) branded products series, leveraging on various recognitions and accreditations granted to the Group by different government organizations, we will continue our work to strengthen the awareness and understanding of the general public on the profound culture, applications and benefits of traditional Chinese medicine. We will flexibly utilise these publicity and promotional opportunities for the goodwill and brand image of Bawang (霸王). In order to achieve this purpose, we intend to use the commercials which are long enough to deliver the entire message. We will strategically broadcast the commercials through modern medium such as internet, public transport TV, and mobile phone messaging, which helps us reduce advertising costs and at the same time reach our target segment.

The focus of our marketing efforts now turns to growth rate. To optimize the efficiency of our retailers and distributors thereby increasing growth rate, we will make use of the Sales Automation Management System ("**SAMS**"), which enables the Group to gather the transparent first hand information about the sales trend of our products, monitor the inventory level in the channels, and supervise the activities of our local sales staff.

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 into new areas, to deepen the penetration of the existing established regional markets, particularly those regions that have not yet been well explored by the Group, to boost the sales to the same retailer and distributor, and to expand the revenue stream through the launch of enhanced products and/or product series with new brand image so as to expand the coverage of market segments and hence increase sales revenue.

For the Royal Wind Chinese herbal anti-dandruff shampoo series (追風系列), apart from enhancement and expansion of product portfolio as mentioned in the Business Review section, the Group intends to deepen the penetration of the existing established sales channels and to expand the assortment of products at the points of sales so as to increase the market share. We will continue to expand the distribution network for Royal Wind brand (追風) so that the market coverage can be on the same level as the Bawang brand (霸王). 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), we can see that Herborn has started building up its brand loyalty among consumers. We will continue to build up its brand image and brand recognition through setting up counters in department stores, hypermarket and dedicated shops. We will continue to invest in advertising and marketing campaign to strengthen the brand loyalty. To broaden the revenue base, we target to set up around 3,000 counters through our distributors in cosmetics specialty shops on a nationwide basis in the PRC by the end of 2011. 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 the next few years.

For Bawang Herbal Tea (霸王涼茶), we will continue to expand the sales network into new areas and we plan to deepen the penetration of the existing network that has already been established. In the next stage of developing the market, we intend to sell our products through modern trade channels. We also intend to penetrate into new market channels such as restaurants, schools, sports centers and internet café. While we believe that this business segment will become one of our revenue contributors this year, we will strive to further increase the revenue generate from this business segment.

In relation to the launch of new products, the Group will mainly focus its efforts to strengthen its existing portfolio of brands as mentioned above. We would therefore postpone our plans for launching brand new product lines for the time being.

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. Installation and fittings works of phase one are in the final stages of completion. We estimate that the aggregate annual production capacity for shampoo products, hair-care products, and skincare products is approximately 100,000 metric tons upon completion of this phase.

The Group will continue with its plan to lease another production plant in Huadu District, Guangzhou, for its herbal tea business. The construction work of the site is in progress. We expect that the new plant would be available for our installation and fittings of machinery and equipment around 2013.

The Group set up the Chinese herbal plantation in Guangdong Province in 2010 and it has started receiving its yield of Chinese herbs since 2011. The Company is now replicating its agricultural practices for training and development of farmers on how to maximize output in herbs field cultivation. As the results are satisfactory, the Group is looking for more sites in other places in China for setting up additional herbal plantations.

In terms of our development plan in overseas markets, the Group will continue to explore the possibility with potential distributors for launching our branded products to other countries. Bawang Herbal Tea (霸王涼茶) is expected to be rolled out in Singapore in late 2011 or early 2012. The Group is open to explore all business opportunities with potential overseas distributors.

The Company does not have any outstanding acquisition opportunity in hand. Currently, the Company will not actively explore opportunities that may involve potential acquisition.

The Group will continue its Stepping Stone project to make organization-wide efforts for enhancing its management efficiency and effectiveness so as to lay down a stepping stone for transcending the Group into a new horizon.

Looking forward, we will make use of our core competencies and specialty 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 multi-product and multi-brand strategy, aiming to become a global leader of branded Chinese herbal HPC products operator and to bring the best returns to our investors.

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:

	30 June 2011	31 December 2010
	RMB in million	*RMB in million*
Cash and cash equivalents	**875.0**	1,186.5
Total bank and other borrowings[1]	**0**	209.8
Total assets	**1,497.7**	2,033.4
Gearing ratio[2]	**0%**	10.3%

Note:

1. ***The borrowings were wholly denominated in US Dollars.***

2. ***Calculate as interest-bearing borrowings divided by total assets.***

Material Acquisition and Disposal

The Group did not engage in any material acquisitions or disposal of any its subsidiaries or associated companies for 1H2011.

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 mostly denominated in Reminbi. 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 Reminbi and thus the exchange risk at the Group's operational level is not significant. As at 30 June 2011, 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 is prepared to take prudent measures such as hedging when required.

Contingent Liabilities

The Group had no material contingent liabilities as of 30 June 2011.

Capital Commitment

As of 30 June 2011, the capital commitment of the Group was amounted to RMB86.6 million.

Pledge of Assets

The Group had no pledge of assets as of 30 June 2011.

Human Resources

As of 30 June 2011, the Group employed approximately 11,200 employees (including staff members and contract personnel) in the PRC and Hong Kong. Total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to RMB114.0 million for 1H2011.

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 scheme respectively. Other benefits include performance-based incentive bonus scheme and share options granted or to be granted under the share option schemes.

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 pleasant working environment are essential factors for maintenance of a stable workforce for the Group.

Management Consulting Company

We have retained Mercer Consulting as the Group's advisor to enhance business processes, optimize the supply chain and human resource management since May 2011.

Purchase, Sales 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 the period under review.

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 provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to Listing Rules during the period.

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 period under review.

Audit Committee

The Company has established the Audit Committee in compliance with the 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. The Audit Committee also provides advices and suggestions to the Board. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2011 with the management of the Company and the Company's independent auditors and recommended its adoption by the Board.

Dividends

The Board does not recommend the payment of any interim dividends in respect of the six months ended 30 June 2011.

Publication of Interim Results Announcement and Interim Report

This interim results announcement is also published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and the Stock Exchange (www.hkex.com.hk). The interim report for the six months ended of 30 June 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

Appreciation

The Board would like to take these opportunities to express its gratitude to all Shareholders, customers, suppliers, banks, professional parties and employees of the Company for their continuous patronage and support.

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

Hong Kong, 28 August 2011

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.