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 2012

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 2012 together with comparative figures for the corresponding period in 2011.

* *For identification purpose only*

Consolidated income statement

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
	Note	**2012**	2011
		RMB'000	*RMB'000*
Turnover	4	**288,701**	439,843
Cost of sales		**(162,525)**	(302,826)
Gross profit		**126,176**	137,017
Changes in fair value less costs to sell of biological assets		**(558)**	1,596
Other revenue		**36**	1,275
Other net losses		**(1,618)**	(237)
Selling and distribution costs		**(320,990)**	(458,557)
Administrative expenses		**(48,271)**	(44,737)
Loss from operations		**(245,225)**	(363,643)
Finance income	5(a)	**882**	14,348
Finance costs	5(a)	**—**	(3,154)
Net finance income	5(a)	**882**	11,194
Loss before taxation	5	**(244,343)**	(352,449)
Income tax (expense)/credit	6	**(82,605)**	57,593
Loss for the period attributable to the equity shareholders of the Company		**(326,948)**	(294,856)
Loss per share (RMB yuan)	7		
Basic		**(0.11)**	(0.10)
Diluted		**(0.11)**	(0.10)

Consolidated statement of comprehensive income

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Loss for the period attributable to the equity shareholders of the Company	**(326,948)**	(294,856)
Other comprehensive income for the period		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(4,308)**	(13,587)
Total comprehensive income for the period attributable to the equity shareholders of the Company	**(331,256)**	(308,443)

Consolidated balance sheet at 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	**At 30 June 2012** *RMB'000*	At 31 December 2011 *RMB'000*
Non-current assets			
Property, plant and equipment		**287,543**	184,555
Prepaid advertising fee		**4,561**	3,875
Biological assets		**140**	1,297
Deferred tax assets		**—**	82,605
		292,244	272,332
Current assets			
Inventories	8	**87,488**	112,159
Biological assets		**1,739**	949
Trade and other receivables	9	**197,015**	257,972
Cash and cash equivalents		**320,357**	602,672
		606,599	973,752
Current liabilities			
Trade and other payables	10	**185,462**	201,825
Amounts due to related parties		**2,941**	3,730
Income tax payable		**9,656**	9,656
		198,059	215,211
Net current assets		**408,540**	758,541
Total assets less current liabilities		**700,784**	1,030,873

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Non-current liabilities		
Deferred tax liabilities	**2,031**	2,031
Net assets	**698,753**	1,028,842
Capital and reserves		
Share capital	**256,511**	256,511
Reserves	**442,242**	772,331
Total equity	**698,753**	1,028,842

Consolidated statement of changes in equity

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital	**Share premium**	**PRC statutory reserves**	**Capital reserve**	**Merger reserve**	**Translation reserve**	**Accumulated losses**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 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 and 1 July 2011	256,380	1,348,639	49,887	11,373	8,468	(27,238)	(364,847)	1,282,662
Changes in equity for the six months ended 31 December 2011:								
Total comprehensive income for the period	—	—	—	—	—	8,409	(263,714)	(255,305)
Share issued under share option scheme	131	3,051	—	(3,051)	—	—	—	131
Equity settled share-based transactions	—	—	—	1,354	—	—	—	1,354
Balance at 31 December 2011 and 1 January 2012	256,511	1,351,690	49,887	9,676	8,468	(18,829)	(628,561)	1,028,842
Changes in equity for the six months ended 30 June 2012:								
Total comprehensive income for the period	—	—	—	—	—	(4,308)	(326,948)	(331,256)
Equity settled share-based transactions	—	—	—	1,167	—	—	—	1,167
Balance at 30 June 2012	256,511	1,351,690	49,887	10,843	8,468	(23,137)	(955,509)	698,753

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 ("IAS") 34, *Interim financial reporting,* issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 28 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes are set out in Note 2.

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 2011 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 2011 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 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2012.

The Group incurred a net loss of RMB326,948,000 for the six months ended 30 June 2012 and had cumulative losses of RMB955,509,000 as at 30 June 2012. Having taken into account the expected operating cash inflows and the available financial resources of the Group, the directors have concluded that the Group is able to continue as a going concern and to meet their liabilities as and when they fall due, having regard to the following:

(i) The Group had cash and cash equivalents of RMB320,357,000 and net current assets of RMB408,540,000 as at 30 June 2012. Moreover, the Group obtained a standby short-term trade financing facility of RMB80,000,000 from Bank of China on 21 August 2012, with an effective period till 7 August 2013. Based on the cash flow forecast prepared by the directors, the Group will have sufficient financial resources to satisfy its future need of working capital for at least the next 12 months from 30 June 2012.

(ii) The directors have been taking measures to attain profitable and positive cash flow operations in the long run, which include the following:

- the directors have reviewed the Group's longer term business strategy and identified various initiatives which could turn around the Group's business performance, such as expanding the revenue stream through the launch of enhanced or new products series; and

- various cost control measures have been being taken to tighten the costs of operations and various general and administrative expenses.

(iii) The Group will consider possible additional external funding when necessary in the future.

2 Changes in accounting policies

The IASB has issued a few amendments to IFRSs 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:

- Amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*
- Amendments to IAS 12, *Income taxes — Deferred tax: Recovery of underlying assets*

The adoption of the new and revised IFRSs has no significant impact on the Group's interim financial statements.

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

3 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 four reportable segments:

- Hair-care products (mainland China and overseas)
- Herbal tea products (mainland China)
- Skin-care products (mainland China and overseas)
- Other household and personal care 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 from operations". To arrive at adjusted loss from operations, the Group's loss 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. 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 2012 and 2011 is set out as below:

	Hair-care products		**Herbal tea products**		**Skin-care products**		**Other household and personal care 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**		**For the six months ended 30 June**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue										
Revenue from external customers	**221,238**	248,209	**16,108**	118,316	**31,908**	41,508	**19,447**	31,810	**288,701**	439,843
Inter-segment revenue	**—**	1	**24**	4,253	**—**	—	**—**	—	**24**	4,254
	221,238	248,210	**16,132**	122,569	**31,908**	41,508	**19,447**	31,810	**288,725**	444,097
Reportable segment loss										
Adjusted loss from operations	**(155,388)**	(242,075)	**(57,632)**	(43,904)	**(13,636)**	(66,937)	**(4,252)**	(3,499)	**(230,908)**	(356,415)

(b) Reconciliations of reportable segment revenue and results

Revenue

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Reportable segment revenue	**288,725**	444,097
Elimination of inter-segment revenue	**(24)**	(4,254)
Consolidated turnover	**288,701**	439,843

Results

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Reportable segment loss	**(230,908)**	(356,415)
Elimination of inter-segment profits	**—**	(1,382)
Changes in fair value less costs to sell of biological assets	**(558)**	1,596
Other revenue	**36**	1,275
Other net losses	**(1,618)**	(237)
Unallocated head office and corporate expenses	**(12,177)**	(8,480)
Finance income	**882**	14,348
Finance costs	**—**	(3,154)
Consolidated loss before taxation	**(244,343)**	(352,449)

(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, non-current portion of prepaid advertising fee and biological assets ("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 biological assets, 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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**278,597**	427,595	**294,282**	155,226
Hong Kong	**6,805**	7,591	**1,796**	2,966
Singapore	**1,119**	709	**—**	—
Malaysia	**428**	—	**—**	—
Myanmar	**—**	442	**—**	—
Thailand	**1,752**	2,602	**—**	—
Australia	**—**	904	**—**	—
	10,104	12,248	**1,796**	2,966
	288,701	439,843	**296,078**	158,192

4 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, and also sales of herbal tea products.

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	
	2012	2011
	RMB'000	*RMB'000*
Hair-care products	**221,238**	248,209
Herbal tea products	**16,108**	118,316
Skin-care products	**31,908**	41,508
Other household and personal care products	**19,447**	31,810
	288,701	439,843

5 Loss before taxation

Loss before taxation is arrived at after charging/crediting:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(a) Finance income and costs:		
Finance income		
Interest income on bank deposits	**767**	7,216
Net foreign exchange gains	**115**	7,132
Subtotal	**882**	14,348
Finance costs		
Interest on bank borrowings	**—**	(3,154)
Net finance income	**882**	11,194

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(b) Staff costs:		
Salaries, wages and other benefits	**121,525**	109,274
Equity-settled share-based payment expenses	**1,167**	1,705
Contributions to defined contribution retirement plan	**4,359**	3,045
	127,051	114,024

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	
	2012	2011
	RMB'000	*RMB'000*
(c) Other items:		
Depreciation	**9,173**	6,460
Auditors' remuneration	**300**	300
Cost of inventories*	**162,525**	302,826
Provision/(reversal) of impairment loss for bad and doubtful debts	**2,994**	(537)

* Cost of inventories includes RMB24,717,000 and RMB17,368,000 for the six months ended 30 June 2012 and 2011 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 Income tax expense/(credit)

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Over-provision in respect of prior periods	**—**	(509)
Current tax — Hong Kong income tax		
Over-provision in respect of prior periods	**—**	(3,942)
Deferred tax		
Reversal/(origination) of temporary differences	**82,605**	(53,142)
Income tax expense/(credit)	**82,605**	(57,593)

(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%. The PRC Corporate Income Tax Law allows enterprises to apply for the certificates of "high and new technology enterprise" ("HNTE") which entitles the qualified companies to the preferential income tax rate of 15%. Bawang Guangzhou qualified as a HNTE during the year ended 31 December 2009 and the qualification was valid for three years from the year ended 31 December 2009 to 2011. Bawang Guangzhou is currently in the process of applying for the renewal of HNTE certificate. If Bawang Guangzhou fails to qualify as an HNTE during the year ending 31 December 2012, the income tax rate for the year ending 31 December 2012 will be 25%.

(c) Bawang (China) Beverage Co., Ltd. ("Bawang Beverage") and Bawang (China) Herbal Co., Ltd. ("Bawang Herbal"), PRC subsidiaries of the Group, are subject to an income tax rate of 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 2012 since the PRC subsidiaries, Bawang Guangzhou, Bawang Beverage and Bawang Herbal, incurred losses during the interim period.

(e) The applicable income tax rate is 16.5%, for the subsidiaries in Hong Kong, i.e. Hong Kong Bawang International Trading Limited ("Bawang Trading"), Bawang International Investments Limited ("Bawang Investments") and Bawang International Group Holding (HK) Limited ("Bawang Hong Kong").

(f) As of 31 December 2011, deferred tax assets were recognised by Bawang Guangzhou in relation to certain deductible temporary differences and cumulative tax losses, which will expire in five years from the year in which the losses originated. During the six months ended 30 June 2012, such deferred tax assets were reversed as management determines that there is no convincing evidence that sufficient taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

7 Loss per share

(a) Basic loss 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 2012 of RMB326,948,000 (loss for six months ended 30 June 2011: RMB294,856,000) and the weighted average of 2,909,395,720 ordinary shares (six months ended 30 June 2011: 2,907,820,720 ordinary shares) in issue during the interim period.

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 June 2012 and 2011 does not assume the exercise of the Company's share options as the effect is anti-dilutive.

8 Inventories

(a) Inventories in the balance sheet comprise:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Raw materials	**11,008**	17,425
Work in progress	**5,649**	5,813
Finished goods	**45,938**	59,157
Packing materials	**21,269**	25,741
Others	**3,624**	4,023
	87,488	112,159

(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	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**172,419**	228,289
Write down of inventories	**44,816**	85,348
Reversal of write-down of inventories	**(54,710)**	(10,811)
	162,525	302,826

9 Trade and other receivables

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Trade debtors and bills receivable	**134,807**	150,387
Less: allowance for doubtful debts (Note 9(b))	**(6,511)**	(3,517)
	128,296	146,870
Prepayment for purchase of raw materials	**4,800**	2,112
Prepayment for purchase of fixed assets	**1,345**	26,944
Prepaid advertising fee	**50,361**	71,699
Other receivables	**12,213**	10,347
	197,015	257,972

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 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Current	**84,380**	111,636
Less than 3 months past due	**36,501**	31,000
More than 3 months but less than 6 months past due	**7,611**	3,618
More than 6 months but less than 12 months past due	**4,341**	3,529
More than 12 months past due	**1,974**	604
	134,807	150,387
Less: impairment loss for doubtful debts	**(6,511)**	(3,517)
	128,296	146,870

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

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Balance at 1 January	**3,517**	1,792
Impairment loss recognised	**2,994**	1,725
Balance at 30 June/31 December	**6,511**	3,517

10 Trade and other payables

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Trade payables	**43,057**	65,341
Receipts in advance	**19,319**	30,530
Promotion fee payable	**29,628**	20,946
Accrued payroll	**16,989**	27,390
Other payables and accruals	**76,469**	57,618
	185,462	201,825

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 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Due within 1 month or on demand	**36,211**	56,514
Due after 1 month but within 3 months	**6,846**	8,827
	43,057	65,341

11 Commitments

Capital commitments outstanding at 30 June 2012 not provided for in the financial statements were as follows:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Contracted for	**39,069**	56,945
Authorised but not contracted for	**10**	97

Business Review

The Directors report that the total revenue of the Group for the six months ended 30 June 2012 was RMB288.7 million, representing a decrease of 34.4% when compared to the corresponding period in 2011. The operating loss of the Group for the six months ended 30 June 2012 was RMB245.2 million, representing a decrease of 32.6% when compared to the corresponding period in 2011. For the six months ended 30 June 2012, the Group has recorded a loss of RMB326.9 million when compared to a loss of RMB294.9 million in the corresponding period in 2011. For further details of the operating performance of the Group, please refer to the Financial Review section of this announcement.

The Directors would like to indicate that we had actually witnessed some positive signs of recovery. There had been improvements in the sequential growth rate of monthly sales revenue of our core products during the first quarter of 2012. However, the operating environment became challenging in the second quarter, and have caused the sales revenue of our core products to decrease.

Further, PRC's gross domestic product dipped to 7.6% in the second quarter, down from 8.1% in the first quarter and has reached the lowest level since the beginning of 2009. The Directors believe that the PRC economy has begun to slow down in the second quarter of 2012, and has hampered the Group's recovery progress. Consequently, the sales revenue of the Group for the six months ended 30 June 2012 declined when compared to the corresponding period in 2011, and the sales performance of our core products was worse than expected. The Group continued to record significant net losses for the period under review.

For Bawang (霸王) branded series, in the beginning of 2012, the Group continued to follow the marketing and promotion strategies that were laid down in 2011, and the sales performance of Bawang branded products was generally in line with the expectation of the management. However, sales started to decline from the beginning of the second quarter. To boost the sales performance, the Group have rolled out a nationwide promotion campaign for Bawang products known as "The Five Key Success Factors that Build up the Premium Quality of Bawang Branded Products" (五大實力，成就霸王冠軍品質). Both Mr. Jackie Chan and Ms. Kim Hui Seon continue to be the brand ambassadors. In August 2012, a new shampoo and haircare product that targets the female customers market, Bawang Anti-hair Fall Shampoo for Ladies and Nutri-repairing Moisturing Conditioner, was rolled out by the Group.

As of 30 June 2012, the Bawang brand distribution network comprised around 489 distributors and 50 KA retailers, covering 26 provinces and four municipalities. Furthermore, the products are sold in Hong Kong, Macau, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia.

Similar to the Bawang branded series, for Royal Wind (追風) branded series, the Group continued to follow the marketing and promotion strategies that were laid down at the end of 2011. Furthermore, the Group rolled out a nationwide promotion campaign for Royal Wind products known as "颶風行動" (Whirlwind Action) . Mr. Han Geng continues to be the brand ambassador. In August 2012, the Group rolled out two new products under the Royal Wind shampoo series — Royal Wind Hydra-fresh Shampoo and Royal Wind Anti-hair Fall Shampoo.

As of 30 June 2012, the distribution network for Royal Wind branded series comprised approximately 446 distributors and 48 KA retailers, covering 26 provinces and four municipalities. Furthermore, the products are already sold in Singapore.

The target market for Litao (麗濤) branded products is the mid-low end segment in the PRC shampoo market. As of 30 June 2012, its distribution network comprised approximately 377 distributors, covering 26 provinces and four municipalities.

As for the Chinese herbal skincare products series, Herborn (本草堂), its target customers are 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) continues to be the brand ambassador and will continue to help us promote the brand image. The Herborn Imperial Series (貴妃系列) was rolled out to the market in June 2012. The Group has been appointed for the third time as the 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) to the contestants, we also conducted a series of skincare seminars for the contestants, so as to allow them to understand the concepts and benefits of traditional Chinese medicine.

As of 30 June 2012, the distribution networks for Herborn branded series comprised approximately 107 distributors and 14 KA retailers, covering 27 provinces and four municipalities with 80 designated counters in department stores and/or supermarkets and approximately 3,800 designated counters in cosmetics specialty shops in China. In addition, the products are sold in Mannings, Watsons, Sasa and Bonjour chain stores in Hong Kong.

As for the Chinese herbal beverage product series, Bawang Herbal Tea (霸王涼茶), the Group has taken a prudent approach when operating and developing this business since the beginning of 2012, and has outsourced most of the business operations to selected distributors. In May 2012, Bawang Herbal Tea was selected as the designated herbal tea provider to the International Cycling Union (ICU) Women Road World Cup in Chongming Island, Shanghai. As of 30 June 2012, its distribution network comprised approximately 228 distributors, covering 24 provinces and two municipalities.

Since the second quarter in 2012, the Group has formulated and implemented a series of strategic measures to reform and streamline our business operations of each of our core products. The Directors believe that such measures will enable us to strengthen the foundation for our long term development and the sustainability of our business. Please refer to the Outlook section of this announcement for discussions of plans and strategies for our brand portfolio

According to a research report published by Euromonitor in 2012, in terms of retail sales, our range of products (including Bawang and Royal Wind) continued to hold the largest market share among all Chinese brands in 2011 , accounting for approximately 4.8% of the retail sales in the overall shampoo market in the PRC. For the Chinese herbal shampoo sub-segment, our range of products, in terms of retail sales, accounted for approximately 26.6% of the market share 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 six years since 2006.

In terms of the recognition gained by the Group, the Guangdong Provincial Department of Science and Technology has awarded "Independent Innovative Products in Guangdong Province 2011" to our following three products:

1. Bawang Anti-hair Fall Shampoo (霸王防脱洗髮液)

2. Bawang Hair Blackening and Strengthening Shampoo (霸王烏髮固發洗髮液)

3. Bawang Nutri-moisturizing Shampoo (霸王滋補盈潤洗髮精華素)

During the period under review, the Group obtained five patent certificates from the State Intellectual Property Office in relation to herbal extract methodologies and techniques, and a further one in relation to herbal sugar-free drink methodology and technique.

In addition, the Group will obtain funding for research and development from the government, in recognition of our outstanding contributions to the research and industrialization of anti-hair fall shampoo.

In March 2012, Bawang (Guangzhou) Co., Ltd ("**Bawang Guangzhou**") was recognised by the Guangzhou Municipal Government as "The First Batch of Corporations Headquartered in the Guangzhou City". Subject to the fulfilment of certain prescribed criterion, Bawang Guangzhou may be eligible for certain government grants.

In May 2012, Herborn skincare branded product was voted by thousands of consumers in a campaign organized by a Shenzhen-based news media as one of the "Top 10 Potential Brands in 2012". This award is regarded by the industry as authoritative and professional.

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, which relates to our researches on hair care, skin care and health care applications of Chinese herbs, the successful registration of which will be a further testament to our research and development efforts.

Litigation

We are of the view that the contents in the relevant magazine article published by Next Magazine on 14 July 2010 are defamatory to 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 RMB288.7 million, representing a decrease of 34.4% when compared to RMB439.8 million in the corresponding period in 2011. The sales decline was principally attributable to the substantial decline in the sales of Bawang Herbal Tea. The Group is gradually reducing our investment in Bawang Herbal Tea as a result of the change in business model from self-managed to outsourcing. But such sales decline was partially offset by the slight increase in sales of two branded products, Bawang and Smerry (雪美人).

During the period under review, the Group's core brand, Bawang, generated RMB159.2 million in revenue, which accounted for approximately 55.1% of the Group's total revenue, and represented an increase of 8.4% when compared to the corresponding period in 2011.

During the period under review, the Group's branded Chinese herbal anti-dandruff hair-care series, Royal Wind, recorded a revenue of RMB63.9 million, which accounted for approximately 22.2% of the Group's total revenue, and represented a decrease of 24.6% when compared to the corresponding period in 2011.

During the period under review, the Group's branded Chinese herbal drink of the Group, Bawang Herbal Tea, recorded a revenue of RMB16.1 million, which accounted for approximately 5.6% of the Group's total revenue and represented a decrease of 86.4% when compared to RMB118.3 million in the corresponding period in 2011.

During the period under review, the Group's branded Chinese herbal skincare series, Herborn, recorded a revenue of RMB28.9 million, which accounted for approximately 10.0% of the Group's total revenue, and represented a decrease of 25.4% when compared to the corresponding period in 2011.

During the period under review, the Group's nature-based branded shampoo and shower gel products series, Litao, generated RMB17.8 million in revenue, which accounted for approximately 6.2% of the Group's total revenue, and represented a decrease of 63.3% when compared to the corresponding period in 2011.

During the period under review, Smerry generated a total revenue of RMB2.8 million, which accounted for approximately 0.9% of the Group's total revenue.

We were selling our products through extensive distribution and retail networks. During the period under review, sales to our distributors and retailers represented approximately 75.1% and approximately 24.9% of the Group's total revenue respectively.

During the period under review, our products were sold in Hong Kong, Macao, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia. The sales to these markets outside the PRC accounted for 3.5% of our total revenue.

Cost of Sales

During the period under review, cost of sales amounted to RMB162.5 million, representing a decrease of 46.3% when compared to RMB302.8 million in the corresponding period in 2011. Such change was mainly due to a decrease in the sales volume of Bawang Herbal Tea products, and the reversal of a write-down of inventories in the amount of RMB9.9 million.

Gross Profit

During the period under review, the Group's gross profit decreased to RMB126.2 million, representing a decrease of 7.9% when compared to RMB137.0 million in the corresponding period in 2011. The gross profit margin for the six months ended 30 June increased from 31.2% in 2011 to 43.7% in 2012. The increase in gross profit margin was mainly due to the decrease in the proportion of herbal tea products sold in the product mix, as the gross profit margin for herbal tea products is lower than that of HPC products. The effect brought about by the decrease in sales of herbal tea products was however, partially offset by the decrease in unit selling price of HPC products, due to the increasing use of HPC products as settlement for sales rebates.

Selling and Distribution Costs

During the period under review, selling and distribution costs decreased to RMB321.0 million, representing a decrease of 30.0%, when compared to the corresponding period in 2011. Such decrease is mainly due to the decrease in advertising fees and the savings achieved in promotion fee through optimizing our promotion staff resources.

Administrative Expenses

During the period under review, administrative expenses amounted to approximately RMB48.3 million, representing an increase of approximately 7.9% when compared with approximately RMB44.7 million in the corresponding period in 2011. Such increase was mainly due to the increase in non-capitalizable research and development expenditures and provisions for bad debt, but is partially offset by the decrease in salary, traveling and meeting expense, and recruitment fees.

Loss from Operations

The Group recorded an operating loss of RMB245.2 million for the six months ended 30 June 2012, when compared to the operating loss of RMB363.6 million for the corresponding period in 2011. The Group's operating margin for the six months ended 30 June decreased from -82.7% in 2011 to -84.9% in 2012. The decrease was mainly due to the decrease in sales and partially offset by the effective control of advertising and promotion expenses.

Net Finance Income

For the six months ended 30 June 2012, net finance income of the Group was RMB0.9 million (30 June 2011: RMB11.2 million). The significant decrease was mainly due to the substantial decrease in both the interest income on bank deposits and net foreign exchange gains. The Group did not incur any interest on bank borrowings during the period under review (30 June 2011: RMB3.2 million).

Income Tax

During the period under review, the Group had an income tax expense of RMB82.6 million, when compared to an income tax credit of RMB57.6 million during the corresponding period in 2011. The income tax expense for the six months ended 30 June 2012 represented the reversal of deferred tax assets recognized for the tax losses and deductible temporary differences prior to 2012.

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 2012, the amount of provision for write-down of inventories was RMB44.8 million (31 December 2011: RMB54.7 million). As a result, a reversal of write-down of inventories to their net realizable value in the amount of approximately RMB9.9 million has been included in cost of sales mentioned above.

Loss for the Period Attributable to the Equity Shareholder

As a result of the combined effect of the abovementioned factors, the Group recorded an attributable loss of RMB326.9 million for six months ended 30 June 2012, when compared to the attributable loss of RMB294.9 million for the six months ended 30 June 2011.

Outlook

The PRC economy has been sending out mixed signals at the moment. Whilst the economy has been affected by the economic downturns in the US and Europe, the property market in China is showing early signs of recovery. However, the Directors believe that the long term outlook of the Chinese economy remains strong, as the government is likely to intervene to maintain the economic growth, and this might transform the PRC's economy from an export driven economy into a new model for economic development.

In relation to our business, the Directors are of the view that the macroeconomic conditions might continue to affect our sales performance and business recovery in the near future. The Group is cautious about the recovery progress of the economy and will take a prudent approach when operating and sustaining our business.

To cope with the present challenging market conditions, the Group will revise its operating strategies in response to the prevailing stage of its business recovery, external economy and market conditions and the internal ongoing key performance financial indicators. We outline below our business plans and strategies for the rest of 2012.

For the two core branded shampoo and haircare products, namely Bawang and Royal Wind, the Group plans to develop these two brands through continuous innovation, management excellence and win-win cooperation with business partners. The Group will adopt a new business model, whereby the whole value chain will be split into two parts. Whilst the Group is mainly responsible for the activities in the upper stream such as research and development, manufacturing, marketing and distribution; our business partners, namely distributors and retailers, are responsible for the activities of the lower stream such as channel and in-store management. The Group will provide overall supervision and essential support to its business partners. In addition, we will offer training and development programs to our business partners with a view to enhancing their management skills, so as to aid them in attaining sales targets and hence increase sales revenues.

Relying on the distinctive competitive advantage of being a Renowned Traditional Chinese Medicine Family (中藥世家) and possessing a reliable shampoo product formula, the Group will continue to revolutionize its research and development efforts in relation to the extraction of Chinese herbs and to further apply the new technology into our two core branded shampoo and haircare products.

Through excellent management plans and scientific management systems, the Group aims to enhance its organizational effectiveness, improve the quality of its products, control costs, and reduce operating expenses on one hand; and strive to enhance the Group's existing revenue base and/or explore new revenue streams on the other hand.

With the successful inauguration of our automated production complex, the Group is confident that we should be able to promptly provide quality products to our business partners for resale.

The Directors believe that the combined effect of the above measures would enable the Group to maximize returns and achieve a win-win situation together with our business partners.

For the Herborn Chinese herbal skincare products series, we will continue to enhance its brand image and brand recognition through advertising, marketing campaigns and setting up more designated counters in department stores, supermarkets and cosmetic stores. We expect that we will set up another 1,600 designated counters in cosmetic specialty shops throughout the PRC through distributors. Our original plan of having a total of 5,000 designated counters by the end of 2012 remains unchanged. We reinforce our belief 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, we have adopted a prudent approach to operate and develop its business, and have outsourced its operations to selected distributors since the beginning of 2012. The Group will continue to adopt this model, so as to minimize the risk of over-investment.

In relation to the launch of new products, the Group will mainly focus on strengthening its existing portfolio of brands as mentioned above. We may expand our existing core products portfolio. We do not have plans for rolling out brand new major product lines for the time being.

With the commencement of operations of the new production plant, which has automated production lines designed in accordance with the guidelines laid down for good manufacturing practices (GMP), the Directors believe that this will help restore our corporate image and the consumers' confidence in the quality of our products, which will help speeding up the recovery progress and enhance our operating performance.

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 installation and commissioning of machinery and equipment at the new plant will take place at around 2013.

The Group has already set up a Chinese herbal plantation in Guangdong province since early 2010 and has started receiving the first yield of Chinese herbs since 2011. The Company is now replicating this agricultural practice, so as to train farmers on how to maximize output when cultivating herbs. 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 for launching our branded products in other countries with potential distributors. Bawang shampoo and haircare products may be rolled out in Vietnam and Indonesia later on. The Group is open to explore all further business opportunities with potential overseas distributors.

The Company does not have any outstanding acquisition opportunity in hand and will not actively explore opportunities that may involve potential acquisition for the time being.

Looking forward, we have two strategic plans to sustain and develop our business in the midst of the volatile internal and external operating environments. In the short run, we have to revive our sales growth and profitability; to continue to build up a management team with strong experience in both domestic and global HPC products sectors; and to improve investor confidence. In the long run, we have to build up a sustainable business model, so as to compete against both domestic and international competitors; to maintain a multi-brand and multi-product strategy; 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. A summary of liquidity and financial resources is set out below:

	30 June 2012	31 December 2011
	RMB in million	*RMB in million*
Cash and cash equivalents	**320.4**	602.7
Total bank and other borrowings	**—**	—
Total assets	**898.8**	1,246.1
Gearing ratio[1]	**—**	—

Note:

1. ***Calculated as interest-bearing borrowings divided by total assets.***

Material Acquisition and Disposal

As at 30 June 2012, the Group has no specific acquisition target.

The Group did not have any material acquisition or disposal of any its subsidiaries or associated companies during the period under review.

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 Renminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared. In addition, the Group paid certain advertising fees in United States Dollars or Hong Kong Dollars.

The Directors are of the view that the Group conducts its business transactions principally in Renminbi and thus the exchange risk at the Group's operational level is not significant.

As at 30 June 2012, 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 2012.

Capital Commitment

As of 30 June 2012, the capital commitment of the Group were approximately RMB39.0 million.

Pledge of Assets

The Group had no pledge of assets as of 30 June 2012.

Human Resources

As of 30 June 2012, the Group employed approximately 8,256 employees (30 June 2011: 11,207), consisting of full-time employees and contract personnel in the PRC and Hong Kong. Of which, the Group also engaged approximately 5,475 salespersons (30 June 2011: 6,764) through contract personnel agency to help with our marketing and promotional activities. The total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to RMB127.1 million for the first half of 2012 (30 June 2011: RMB114.0 million).

The table shows a breakdown of our employees for the for the six months ended 30 June 2012 and for the six months ended 30 June 2011:

	30 June 2012	30 June 2011
Full-time employees	**756**	868
Contract personnel		
— Salespersons	**5,475**	6,764
— Others	**2,025**	3,575
Total employees	**8,256**	11,207

The employees' remuneration, promotion and salary review are based on individual 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 the 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.

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 the period under review.

Subsequent Events

On 21 August 2012, Bawang Guangzhou, a wholly owned PRC subsidiary of the Company, entered into a facility agreement with a bank (the "**Bank**"). Pursuant to the facility agreement, the Bank has agreed to grant to BaWang Guangzhou a standby short-term trade financing facility in the amount up to RMB80.0 million (the "**Facility**"). The term of the Facility is for one year and is to expire on 7 August 2013. The funding obtained from the Facility shall be used for Bawang Guangzhou's working capital purposes.

The Facility is secured by the following:

1. A personal guarantee executed by each of Mr. Chen Qiyuan and Ms. Wan Yuhua in favour of the Bank (the "**Personal Guarantee**");

2. A corporate guarantee executed by Guangzhou Bawang Cosmetic Co., Ltd, a company wholly-owned by Mr. Chen Qiyuan and Ms. Wan Yuhua, in favour of the Bank (together with the Personal Guarantee, the "**Guarantees**"); and

3. Certain machineries of Bawang Guangzhou with an aggregate net book value of approximately RMB100.3 million.

No security has been granted by any of the Group companies to any of Mr. Chen Qiyuan, Ms. Wan Yuhua and Guangzhou Bawang Cosmetic Co., Ltd in respect of the Guarantees.

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 Board is of the view that the Company has complied with the code provisions set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 30 June 2012 as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the following deviations:

Code Provision A.6.7

One of the independent non-executive Directors and one of the non-executive Directors were unable to attend the annual general meeting of the Company held on 1 June 2012 due to their unavoidable business engagements.

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 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 2012 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 2012.

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 30 June 2012 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 2012

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.