# 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 2019

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") would like to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**" or "**we**") for the six months ended 30 June 2019 together with comparative figures for the same period last year.

The Board refers to the profit warning announcement of the Company dated 5 August 2019. The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2019:

Total revenue of the Group was approximately RMB113.2 million, representing a decrease of approximately 10.2% from approximately RMB126.0 million for the same period last year.

Revenue through the online sales channel was approximately RMB62.5 million, representing an increase of approximately 7.2% from approximately RMB58.3 million for the same period last year.

Operating loss of the Group was approximately RMB17.8 million, as compared with the operating loss of approximately RMB11.4 million for the same period last year.

Net loss was approximately RMB18.6 million, as compared with the net loss of approximately RMB11.4 million for the same period last year.

Loss attributable to owners of the Company was approximately RMB18.6 million, as compared with the loss of approximately RMB11.4 million for the same period last year.

Loss per share (both basic and diluted) was approximately RMB0.59 cents per share.

Following review of the operating results of the Group, the Board does not recommend the payment of an interim dividend.

* *for identification purpose only*

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2019*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *4* | **113,233** | 125,973 |
| Cost of sales | | **(65,842)** | (69,863) |
| Gross profit | | **47,391** | 56,110 |
| Other income | | **620** | 1,329 |
| Selling and distribution costs | | **(53,304)** | (54,809) |
| Administrative expenses | | **(15,542)** | (13,505) |
| Reversal of impairment loss recognised in respect of trade receivables | | **3,056** | — |
| Other expenses | | **(13)** | (535) |
| **Operating loss** | | **(17,792)** | (11,410) |
| Finance costs | *5* | **(783)** | — |
| **Loss before taxation** | *6* | **(18,575)** | (11,410) |
| Taxation | *7* | **(2)** | — |
| **Loss for the period attributable to owners of the Company** | | **(18,577)** | (11,410) |
| **Loss per share** | *9* | | |
| Basic (RMB cents) | | **(0.59)** | (0.36) |
| Diluted (RMB cents) | | **(0.59)** | (0.36) |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2019*

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Loss for the period attributable to owners of the Company** | **(18,577)** | (11,410) |
| **Other comprehensive income** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences arising on translation of foreign operations | **513** | 3,408 |
| **Total comprehensive expense for the period attributable to owners of the Company** | **(18,064)** | (8,002) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2019*

| | *Notes* | **30 June 2019** *RMB'000* **(Unaudited)** | 31 December 2018 *RMB'000* (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **103,152** | 115,021 |
| Right-of-use assets | | **16,049** | — |
| | | **119,201** | 115,021 |
| **Current assets** | | | |
| Inventories | | **40,873** | 39,610 |
| Right to returned goods asset | | **1,373** | 2,392 |
| Trade and other receivables | *10* | **25,332** | 36,035 |
| Amounts due from related parties | | **109** | 4,706 |
| Deposit with bank | | **20,000** | 20,000 |
| Bank balances and cash | | **53,277** | 65,483 |
| | | **140,964** | 168,226 |
| **Current liabilities** | | | |
| Trade and other payables | *11* | **65,614** | 81,368 |
| Amounts due to related parties | | **17** | 2,488 |
| Contract liabilities | | **13,947** | 7,587 |
| Refund liabilities | | **2,312** | 4,164 |
| Bank borrowing | | **9,650** | 12,550 |
| Lease liabilities | | **8,646** | — |
| Income tax payables | | **9,070** | 9,070 |
| Provision | | **338** | 338 |
| | | **109,594** | 117,565 |
| **Net current assets** | | **31,370** | 50,661 |
| Total assets less current liabilities | | **150,571** | 165,682 |
| **Non-current liability** | | | |
| Lease liabilities | | **2,899** | — |
| **Net assets** | | **147,672** | 165,682 |
| **Capital and reserves** | | | |
| Share capital | *12* | **277,932** | 277,878 |
| Reserves | | **(130,260)** | (112,196) |
| **Total equity** | | **147,672** | 165,682 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2019*

## 1. GENERAL AND BASIS OF PREPARATION

BaWang International (Group) Holding Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate holding company is Fortune Station Limited ("**Fortune Station**"), which is incorporated in the British Virgin Islands (the "**BVI**") and is owned as to: (1) 49.57% by Heroic Hour Limited, a company that is beneficially owned as to 22.00% by Mr. CHEN Zheng He, the chief executive officer and an executive director of the Company, and 78.00% by Mr. CHEN Zheng He's six brothers and sisters; and (2) 50.43% by Mr. CHEN Qiyuan, the chairman of the board of directors of the Company.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are manufacturing and sales of the household and personal care products.

The condensed consolidated financial statements of the Group are presented in Renminbi ("**RMB**"), which is the functional currency of the primary economic environment in which the principal subsidiaries of the Group operate in the People's Republic of China (the "**PRC**").

The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**").

The Group had accumulated losses of approximately RMB1,568,201,000 as at 30 June 2019 and net cash outflow from operating activities of approximately RMB9,110,000 for the six months ended 30 June 2019. In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The condensed consolidated financial statements have been prepared on a going concern basis. In the opinion of the Directors, the Group should be able to continue as a going concern in the coming year taking into consideration of the following:

(i) The Group had bank balances and cash of approximately RMB53,277,000 and net current assets of approximately RMB31,370,000 as at 30 June 2019; and

(ii) The Group had unutilised banking facilities of approximately RMB70,350,000 as at 30 June 2019. The banking facilities have been renewed in March 2019 and extended to March 2021.

In light of the above, the Directors are of the opinion that it is still appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2019 on a going concern basis. Should the Group be not able to continue to operate as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The condensed consolidated financial statements have not incorporated any of these adjustments.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018 except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to International Financial Reporting Standards ("**IFRSs**") issued by the IASB which are effective for the Group's financial year beginning on 1 January 2019:

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

The adoption of IFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out in note 3 below. The application of the other new and amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 2.1 Impacts on adoption of IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

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

The major impacts of the adoption of IFRS 16 on the Group's condensed consolidated financial statements are described below.

***The Group as lessee***

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.67%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

| | *Notes* | **Carrying amount previously reported at 31 December 2018** *RMB'000* (Audited) | **Impact on adoption of IFRS 16** *RMB'000* | **Carrying amount as restated at 1 January 2019** *RMB'000* (Unaudited) |
|---|---|---|---|---|
| Right-of-use assets | *a, b* | — | 20,480 | 20,480 |
| Amounts due from related parties | *b* | 4,706 | (4,612) | 94 |
| Lease liabilities | *a* | — | (15,868) | (15,868) |

*Notes:*

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of RMB15,868,000.

(b) Prepaid rental of RMB4,612,000 as at 31 December 2018 was adjusted to right-of-use assets.

### 2.2 Practical expedients applied

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

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC-4 Determining whether an Arrangement contains a Lease;

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and

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

## 3. CHANGE IN ACCOUNTING POLICIES

**Leases**

***Definition of a lease***

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

***The Group as lessee***

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

*Lease liabilities*

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

*Right-of-use assets*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Impairment losses on tangible assets policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

## 4. REVENUE AND SEGMENT INFORMATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue from contracts with customers** | | |
| Manufacture and sale of household and personal care products: | | |
| Hair-care products | **101,959** | 112,026 |
| Skin-care products | **1,221** | 2,339 |
| Other household and personal care products | **10,053** | 11,608 |
| | **113,233** | 125,973 |

**Disaggregation of revenue by timing of recognition**

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Timing of revenue recognition** | | |
| At a point in time | **113,233** | 125,973 |

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

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

Information reported to the executive directors of the Company, being the chief operation decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on a mixture of product lines and geography. The Directors have chosen to organise the Group around differences in products. The segments are managed separately as each operating segment offers different products which require different production information to formulate different strategies. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

Also, the CODM is provided with segment information concerning segment revenue and result. Segment assets and liabilities are not reported to the CODM regularly.

The following is an analysis of the Group's revenue and results by reportable and operating segments.

**For the six months ended 30 June 2019**

| | **Hair-care products** *RMB'000* **(Unaudited)** | **Skin-care products** *RMB'000* **(Unaudited)** | **Other household and personal care products** *RMB'000* **(Unaudited)** | **Total** *RMB'000* **(Unaudited)** |
|---|---|---|---|---|
| Revenue from external customers | 101,959 | 1,221 | 10,053 | 113,233 |
| Segment loss | (10,581) | (192) | (5,030) | (15,803) |
| Bank interest income | | | | 239 |
| Other income | | | | 378 |
| Corporate and other unallocated expenses | | | | (2,606) |
| Finance costs | | | | (783) |
| Loss before taxation | | | | (18,575) |

**For the six months ended 30 June 2018**

| | Hair-care products *RMB'000* (Unaudited) | Skin-care products *RMB'000* (Unaudited) | Other household and personal care products *RMB'000* (Unaudited) | Total *RMB'000* (Unaudited) |
|---|---|---|---|---|
| Revenue from external customers | 112,026 | 2,339 | 11,608 | 125,973 |
| Segment loss | (4,391) | (301) | (5,890) | (10,582) |
| Bank interest income | | | | 166 |
| Other income | | | | 1,142 |
| Corporate and other unallocated expenses | | | | (2,136) |
| Loss before taxation | | | | (11,410) |

Segment results represent the loss from each segment without allocation of bank interest income, gain on sales of scrap materials, government grants, net exchange losses, central administration costs, directors' emoluments and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on: | | |
| — bank borrowings | **329** | —* |
| — lease liabilities | **454** | — |
| | **783** | — |

* The amount was less than RMB1,000.

## 6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting) the following items:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Bank interest income | **(239)** | (166) |
| Allowance for inventories (included in cost of inventories recognised as an expense above) | **—** | 1,282 |
| Depreciation of property, plant and equipment | **12,076** | 5,230 |
| Depreciation of right-of-use assets | **3,884** | — |
| Impairment loss recognised in respect of trade receivables | **—** | 1,658 |
| Net gain on disposal of property, plant and equipment | **(3)** | (21) |
| Redundancy costs | **390** | 310 |
| Net foreign exchange losses | **1,768** | — |
| Reversal of allowance for inventories (included in cost of sales) | **(747)** | — |
| Reversal of obsolete inventories written-off (included in cost of sales) | **(614)** | — |

## 7. TAXATION

(i) Under the Law of the PRC on Enterprise Income Tax (the "**PRC EIT Law**") and Implementation Regulation of the PRC EIT Law, the tax rate of the subsidiaries incorporated in the PRC is 25% from 1 January 2008 onwards.

The PRC EIT Law allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("**HNTE**") which entitles the qualified companies to a preferential income tax rate of 15%. Bawang (Guangzhou) Co., Ltd. ("**Bawang Guangzhou**"), a PRC subsidiary of the Group, was qualified as a HNTE in 2009. However, Bawang Guangzhou did not have any assessable profits subject to Enterprise Income Tax for the six months ended 30 June 2019 and 2018.

(ii) No provision for Hong Kong Profits Tax has been provided for the six months ended 30 June 2019 and 2018 as the Group does not have any assessable profits subject to Hong Kong Profits Tax for these periods.

(iii) Pursuant to the laws and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI for the current and previous interim periods.

(iv) Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which the beneficial owner is 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 any provision of withholding income tax for the six months ended 30 June 2019 and 2018, respectively since the PRC subsidiaries had accumulated losses as at 30 June 2019 and 2018.

## 8. DIVIDENDS

No dividends were paid, declared or proposed during the current and interim periods, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2018: Nil).

## 9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the loss for the period of approximately RMB18,577,000 (six months ended 30 June 2018: loss for the period of approximately RMB11,410,000) and the weighted average number of approximately 3,162,134,000 (six months ended 30 June 2018: approximately 3,161,811,000) ordinary shares in issue during the period.

For the six months ended 30 June 2019 and 2018, respectively, the diluted loss per share are the same as the basic loss per share.

The computations of diluted loss per share for the six months ended 30 June 2019 and 2018 do not assume the exercise of the Company's share options because their exercise would result in a decrease in loss per share.

## 10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors (net of allowance for impairment of trade receivables) with the following ageing analysis presented based on the invoice date, which approximates the respective revenue recognition dates:

| | **30 June 2019** *RMB'000* **(Unaudited)** | 31 December 2018 *RMB'000* (Audited) |
|---|---|---|
| Less than 3 months | **15,655** | 23,614 |
| More than 3 months but less than 6 months | **1,380** | 4,073 |
| More than 6 months but less than 12 months | **894** | 2,966 |
| Total debtors, net of allowance for impairment of trade receivables | **17,929** | 30,653 |
| Prepayment for purchase of raw materials | **4,419** | 2,888 |
| Short-term prepaid advertising fee | **310** | 649 |
| Other prepayments | **1,471** | 940 |
| Non-income tax receivables | **197** | 193 |
| Other receivables | **1,006** | 712 |
| | **25,332** | 36,035 |

The Group allows an average credit period of 30 to 90 days to its trade customers.

## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following ageing analysis presented based on the invoice date at the end of the reporting period:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| 0–30 days | **26,635** | 24,492 |
| 31–90 days | **—** | 5,120 |
| Total creditors | **26,635** | 29,612 |
| Payable for acquisition of property, plant and equipment | **1,933** | 1,933 |
| Promotion fee payables | **15,191** | 22,236 |
| Accrued payroll | **3,145** | 3,513 |
| Non-income tax payables | **3,248** | 7,404 |
| Other payables and accruals | **15,462** | 16,670 |
| | **65,614** | 81,368 |

## 12. SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | *'000* | *RMB'000* |
| Ordinary shares of HK$0.1 each | | |
| Authorised ordinary shares: | | |
| At 1 January 2018 (audited), 31 December 2018 (audited), 1 January 2019 (audited) and 30 June 2019 (unaudited) | 10,000,000 | 880,500 |
| Issued and fully paid ordinary shares: | | |
| At 1 January 2018 (audited), 31 December 2018 (audited), 1 January 2019 (audited) | 3,161,811 | 277,878 |
| Issue of shares upon exercise of share option *(note)* | 630 | 54 |
| At 30 June 2019 (unaudited) | 3,162,441 | 277,932 |

*Note:* 630,000 share options were exercised during the period and resulted in the issue of 630,000 ordinary shares of the Company and increase in share capital of HK$63,000 (equivalent to approximately RMB54,000).

All shares issued during the period ended 30 June 2019 rank pari passu with existing shares in all respects.

## 13. COMMITMENTS

| | **30 June 2019** *RMB'000* **(Unaudited)** | 31 December 2018 *RMB'000* (Audited) |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the condensed consolidated financial statements | **343** | 343 |

## BUSINESS REVIEW

The Directors report that the total revenue of the Group for the six months ended 30 June 2019 was approximately RMB113.2 million, representing a decrease of approximately 10.2% from approximately RMB126.0 million for the same period last year. The operating loss of the Group for the six months ended 30 June 2019 was approximately RMB17.8 million, as compared with the operating loss of approximately RMB11.4 million for the same period last year.

For the six months ended 30 June 2019, the net loss of the Group was approximately RMB18.6 million, as compared with the net loss of approximately RMB11.4 million for the same period last year.

For further information on the operating performance of the Group, please refer to the "Financial Review" section of this announcement.

During the period under review, the Group was operating under the value-chain-oriented business model to control the costs of sales and administration.

During the period under review, to expand the distribution channels to cover the unexplored market so as to enhance the sales of various branded products, the Group carried out marketing activity known as "Mine Field Clearing" in the conventional sales channels across the country. As at 30 June 2019, a total of approximately 54 new distributors have been recruited.

During the period under review, to enhance the sales of various branded products, we successfully upgraded the packaging of two Bawang branded series for the conventional sales channels. The new packagings have trendy and professional image, which also successfully helped the creation of a social media celebrity version of Bawang hair-care products for sales through the conventional channel.

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

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

In April 2019, the Group selected a popular Chinese style singer, Mr. Huo Zun (霍尊), as our short-term image and brand ambassador for Bawang branded shampoo and hair care products. We made full use of the image of the new brand ambassador to attract consumers' attention via social media platforms such as Weibo and WeChat, advertisements posted in city metros and at the points of sales with the theme to promote Bawang's anti-hair fall shampoos as national products. We believe that the marketing strategy of appointing young brand ambassadors to act as key opinion leaders on social media platforms has made an impact on the promotion of our products.

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

As at 30 June 2019, the Bawang brand distribution network comprised approximately 794 distributors and seven KA retailers, covering 26 provinces and four municipalities in China. Furthermore, the products of the Group were also sold in Hong Kong, Singapore, Thailand and Malaysia.

During the period under review, the Group marketed the branded shampoo products, "Royal Wind", with the theme "Let's chase for the wind rather than wait for the wind". As at 30 June 2019, the Royal Wind brand distribution network comprised approximately 185 distributors and seven KA retailers, covering 26 provinces and four municipalities in China.

Our Litao products mainly comprised shower gels and laundry detergents, targeting consumers living in the second-tier or third-tier cities in China. The Group's goal is to widen the market coverage in China. As at 30 June 2019, the Litao products distribution network comprised approximately 95 distributors, covering 26 provinces and four municipalities in China.

Our Herborn Chinese herbal skincare product series targets white-collar ladies in the age range from 25 to 45 who have relatively high net incomes and are dedicated to pursue a healthy and natural lifestyle. As at 30 June 2019, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 35 distributors covering 26 provinces and four municipalities in China.

As at 30 June 2019, the Group has established online flagship stores for our Bawang, Royal Wind and Herborn branded products on 16 online retailing platforms in China. We will deepen our efforts in the development of this channel.

During the period under review, we have obtained, renewed, and/or are in possession of the following certificates and/or accreditations:

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

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

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

— our High-tech enterprise certificate has been renewed for a period of three years until the end of 2021

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

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

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

— we were awarded the "Golden Ant Star Award 2018–2019" certificate by the China (Guangzhou) International Logistic Equipment & Technology Exhibition Organization Committee in May 2019.

## FINANCIAL REVIEW

### Revenue

During the six months ended 30 June 2019, the Group's revenue from operations amounted to approximately RMB113.2 million, representing a decrease of approximately 10.2% from approximately RMB126.0 million for the same period last year. Revenue through the online sales channel was approximately RMB62.5 million, representing an increase of approximately 7.2% from approximately RMB58.3 million for the same period last year, but such increase was partially offset by the decrease in the aggregate revenue generated from the traditional sales channels.

During the six months ended 30 June 2019, the Group's core brand, Bawang, generated a revenue of approximately RMB105.5 million, which accounted for approximately 93.2% of the Group's total revenue, and represented a decrease of approximately 6.0% as compared with the same period last year.

During the six months ended 30 June 2019, the Group's branded Chinese herbal anti-dandruff haircare series, Royal Wind, generated a revenue of approximately RMB3.2 million, which accounted for approximately 2.8% of the Group's total revenue, represented a decrease of approximately 28.9% as compared with the same period last year.

During the six months ended 30 June 2019, the Group's natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated a revenue of approximately RMB3.2 million, which accounted for approximately 2.8% of the Group's total revenue, represented a decrease of approximately 33.3% as compared with the same period last year.

During the six months ended 30 June 2019, the Group's branded Chinese herbal skincare series, Herborn, generated a revenue of approximately RMB1.2 million, which accounted for approximately 1.1% of the Group's total revenue, represented a decrease of approximately 70.0% as compared with the same period last year.

We sold our products through extensive distribution and retail networks, via conventional and/or online sales channels. During the six months ended 30 June 2019, a summary of our sales revenue in percentage through different networks and/or channels are as follows:

| **Network/Channel** | **Conventional** *(%)* | **Online** *(%)* | **Total** *(%)* |
|---|---|---|---|
| Distributor | 35.9 | 26.0 | 61.9 |
| Retailer | 8.9 | 29.2 | 38.1 |
| Total | 44.8 | 55.2 | 100.0 |

During the six months ended 30 June 2019, our products were also sold in Hong Kong, Singapore, Thailand and Malaysia. The sales to these overseas markets accounted for approximately 1.5% of our total revenue during the six months ended 30 June 2019.

**Cost of Sales**

During the six months ended 30 June 2019, cost of sales amounted to approximately RMB65.8 million, representing a decrease of approximately RMB4.1 million (or approximately 5.9%) from approximately RMB69.9 million during the same period last year. The overall decrease in cost of sales was primarily due to a decrease in the volume of production which was driven by lower demand for our products. As a percentage of revenue, cost of sales for the six months ended 30 June 2019 increased from approximately 55.5% in 2018 to approximately 58.2%, which was mainly due to an increase in unit cost incurred in manufacturing overheads resulted from an increase in depreciation expenses arising from capitalization of construction in progress commencing from the second half of 2018, a decrease in write-back of impairment provision for previous year and an increase in labour costs.

**Gross Profit**

During the six months ended 30 June 2019, the Group's gross profit amounted to approximately RMB47.4 million, representing a decrease of approximately 15.5% from approximately RMB56.1 million for the same period last year. The gross profit margin for the six months ended 30 June 2019 also decreased from approximately 44.5% in the first half of 2018 to approximately 41.9%. The decrease in the gross profit margin was mainly attributable to a decrease of sales volume, which led to an increase in production cost per unit.

**Selling and Distribution Costs**

During the six months ended 30 June 2019, selling and distribution costs amounted to approximately RMB53.3 million, representing a decrease of approximately 2.7% from approximately RMB54.8 million for the same period last year. As a percentage of revenue, our selling and distribution costs for the six months ended 30 June 2019 increased from approximately 43.5% in 2018 to approximately 47.1% in 2019. The increase was primary due to an increase in advertising and branding expenses and salaries of sales staff, but was partially set off by the decrease in travelling expenses and outsourced labour costs.

**Administrative Expenses**

During the six months ended 30 June 2019, administrative expenses amounted to approximately RMB15.5 million, representing an increase of approximately 14.8% from approximately RMB13.5 million for the same period last year. The increase was primarily due to an increase in R&D expenses in new products, exchange loss and salaries of the administrative staff, but was partially offset by the decrease in provision for bad debts and general office expenses.

**Loss from Operations**

The Group recorded an operating loss of approximately RMB17.8 million for the six months ended 30 June 2019, as compared with the operating loss of approximately RMB11.4 million for the same period last year. The increased operating loss was primarily attributable to the following factors: (1) a decrease in the revenue; (2) an increase in production costs; and (3) an increase in administrative expenses.

### Finance Costs

For the six months ended 30 June 2019, finance costs of approximately RMB0.8 million represent the interest on bank borrowing in the amount of approximately RMB0.33 million (six months ended 30 June 2018: RMB1,000), and the interest on lease liabilities in the amount of approximately RMB0.45 million as a result of the adoption of IFRS16 with effect from 1 January 2019.

### Other Income

The Group recorded other income of approximately RMB0.6 million for the six months ended 30 June 2019, representing a decrease of approximately 53.8% from approximately RMB1.3 million for the same period last year. Such decrease was primarily attributable to part of the utilities income (which was classified as other income in the same period last year) was reclassified to set off against the manufacturing overhead under the cost of sales for the period under review, thus reducing other income for the period under review.

### Income Tax Expense

During the six month periods ended 30 June 2019, the Group had income tax expense of approximately RMB2,000 (six months ended 30 June 2018: Nil).

### Net Loss for the Period from Operations

As a result of the combined effect of the abovementioned factors, the Group recorded a net loss from operations of approximately RMB18.6 million for the six months ended 30 June 2019, as compared with the net loss from operations of approximately RMB11.4 million for the six months ended 30 June 2018.

### Loss for the Period Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded a loss attributable to owners of the Company of approximately RMB18.6 million for the six months ended 30 June 2019, as compared with a loss attributable to owners of the Company of approximately RMB11.4 million for the six months ended 30 June 2018.

## OUTLOOK

The International Monetary Fund ("**IMF**") recently downgraded its forecast on the China's gross domestic product ("**GDP**") growth to 6.2% for 2019 after having raised it to 6.3% only two months ago. The reason being that China is still facing downside risks and uncertainty over the trade war with the United States. Having said that, the forecast is within the growth target range of 6.0% to 6.5% set by China.

IMF went on to say that additional policy easing would be warranted if the trade tensions escalated further, that China could roll out other fiscal expansion measures to stabilise the economy under a deteriorating trade scenario, and that the near-term outlook of the Chinese economy remains particularly uncertain given the potential for further escalation of the trade tensions.

When formulating the business strategies of the Group, the Directors tend to be cautious about the future of Chinese economy.

The corporate theme for the rest of 2019 is "30 Years On; Casting the New Glory."

For Bawang branded product series, the Group will leverage on the personal image of our Chinese style singer brand ambassador and his reputation to develop and expand its market segment to the younger generation. We will roll out four new Bawang branded product series with amino acids to capture the unexplored market and a couple of functional shower gel series to cover the unexplored product lines. To leverage on the combined festive effects of the 30th anniversary of the Bawang brand, the Mid-Autumn Festival and the National Day, we plan to enhance revenue through sales and promotional activities for our Bawang branded products series in the major supermarkets. We also plan to have cross-industry collaboration for production of video commercials to publicize the Group's brands.

For Royal Wind branded product series, the Group always makes good efforts to promote its brand image to cater for the trendy lifestyle of young customers. We mainly promote the fragrance products series of this brand in the second half of 2019, and will sell our branded products through traditional sales channels, the exclusive zones inside the contracted supermarkets and the online flagship stores.

For conventional channels, the group will continue to deepen cooperation and interaction with distributors and to carry out channel building activities known as "Mine Field Clearing". Leveraging on the launch of new product series, the Group plans to develop potential customers in those unexplored markets, to utilize the new products for integrating various market resources for allocation to each store to increase sales revenue. The Group will strengthen the management and supervision of the sales teams whereby the Company and distributors will mobilize the training teams for carrying out promotional activities at the point-of-sale. The Group will re-distribute certain product series, which are customer favourites, from online sales channels into traditional sales channels so as to enhance sales volume. Through the reshuffling of the product structures of the traditional and the online sales channels, the Group hopes to create favorable competitive advantages to the traditional sales channels. In terms of investment in product development, the Group plans to develop a shower gel product line in addition to the existing haircare products.

As to the online sales channel, the Group hopes to achieve stable sales growth in future. In the second half of 2019, the Group will launch a branded 2D animation series to promote our products to the younger generation, with a view to increasing market share in the relevant segment. Through marketing video clips and cross-industry cooperation, we intend to incubate our home-grown social media celebrities. Through live broadcast of promotional events and publicity programs, we target to build up the brand loyalty of our young customers so as to enhance our revenue from online sales channels.

Apart from this, the Group intends to develop a new e-commerce platform for promoting our business and selling our products via social media platforms in the second half of this year. Social media is capable of attracting users of all ages. The Group intends to explore the potential for expanding its customer segment and increasing sales by tapping into the connections of its existing customers via social media platforms.

For production management, we strive to keep our customer satisfied with the quality of our products. While we maintain the usual quality of products, we will at the same time continue to reduce spoilages, lower the production costs, strengthen the turnover of production materials and minimize the inventory level. We continue to make good use of our management skills, advanced production equipment and spare production facilities and capacities for expanding an original equipment manufacturer (OEM) business. We believe that through the integration of production resources to achieve greater value enhancement, we can create more revenue for our shareholders.

As part of the business expansion plan, the Group will continue to explore the possibility with potential distributors for launching our branded products to other countries, and will actively exploit and develop the social e-commerce platform business. The Group is open to explore further business opportunities with potential overseas distributors.

As at the date of this announcement, the Group did not have any outstanding acquisition opportunity nor was actively exploring business opportunities that may involve potential acquisition.

Looking forward, the strategic directions to sustain and develop our business in the present volatile economic environments will focus on two areas: in the short term, the Group intends to increase its revenue by exploring new sales channels in household and personal care ("**HPC**") products in order to regain momentum for sales growth and profitability, and to improve investors' confidence in the Group; in the long term, the Group will continue to focus on strengthening its business model and market positioning to increase its market share among domestic and international competitors, maintaining a multi-brand and multi-product strategy in the HPC sector, and becoming a leader in branded Chinese herbal HPC products.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts conservative financial management policies and maintains a good and solid financial position. A summary of liquidity and financial resources is set out below:

| | **30 June 2019** *RMB in million* **(Unaudited)** | 31 December 2018 *RMB in million* (Audited) |
|---|---|---|
| Cash and cash equivalents | **53.3** | 65.5 |
| Total loans | **9.7** | 12.6 |
| Total assets | **260.2** | 283.2 |
| Gearing ratio[Note] | **3.7%** | 4.3% |

*Note:* Calculated as total loans divided by total assets.

## MATERIAL ACQUISITION AND DISPOSAL

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

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGING

The operations of the Group are mainly carried out in China, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. During the period under review, the Group has exported its goods to Hong Kong and certain overseas countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are mostly denominated in Renminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

The Board is of the view that the Group conducts its business transactions principally in Renminbi and thus the exchange rate risk associated with the Group's daily operations is not significant.

For the period ended 30 June 2019, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes. However, the Board will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when required.

## CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities.

## CAPITAL COMMITMENTS

As at 30 June 2019, the capital commitment for acquisition of property, plant and equipment of the Group was approximately RMB0.3 million.

## CHARGE OF ASSETS

As at 30 June 2019, buildings with carrying values of approximately RMB3.3 million (as at 30 June 2018: approximately RMB3.6 million) had been pledged to secure banking facilities granted to the Group. As at 30 June 2019, banking facilities of approximately RMB9.7 million were utilised and approximately RMB70.3 million were unutilised and available for the Group's future financing.

## TRADE AND OTHER PAYABLES

As at 30 June 2019, the trade and other payables of the Group were approximately RMB65.6 million (As at 31 December 2018 approximately RMB81.4 million), which represented a decrease of 19.4%. For the period ended 30 June 2019, trade and other payables did not include any balances due to related parties.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

## EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2019 and up to the date of this announcement.

## THE CORPORATE GOVERNANCE CODE

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

The Board is of the view that the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2019.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has adopted terms of reference which are in line with the CG Code. The Audit and Risk Management Committee has reviewed the interim results of the Group for the six months ended 30 June 2019 with the management of the Company and recommended its adoption by the Board.

## DIVIDENDS

Following review of the operating results of the Group, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The interim report for the six months ended 30 June 2019 containing all the information required under Appendix 16 to the Listing Rules will be despatched to the shareholders and be available on the above websites in due course.

## APPRECIATION

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

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

Hong Kong, 29 August 2019

*As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely, Mr. CHEN Qiyuan, Mr. CHEN Zheng He and Mr. WONG Sin Yung, and three independent non-executive directors, namely, Dr. NGAI Wai Fung, Mr. CHEUNG Kin Wing, and Dr. WANG Qi.*