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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 2017

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 2017 together with comparative figures for the same period last year.

The Board refers to the profit warning announcement of the Company dated 18 August 2017. The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2017:

Total revenue of the continuing operations of the Group was approximately RMB107.1 million, representing a decrease of approximately 20.9% from approximately RMB135.4 million for the same period last year.

Operating profit from the continuing operations of the Group was approximately RMB1.4 million, representing a decrease of approximately 94.0% from approximately RMB22.6 million for the same period last year.

Net profit from the continuing operations was approximately RMB1.1 million, representing a decrease of approximately 94.7% from approximately RMB21.2 million for the same period last year.

Profit attributable to owners of the Company was approximately RMB1.1 million, representing a decrease of approximately 94.7% from approximately RMB21.2 million for the same period last year.

Earnings per share from continuing operations (both basic and diluted) was approximately RMB0.04 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 2017

	Notes	**Six months ended 30 June** **2017** ***RMB'000*** **(Unaudited)**	 2016 *RMB'000* (Unaudited)
Revenue	*3*	**107,126**	135,396
Cost of sales		**(57,287)**	(62,771)
Gross profit		**49,839**	72,625
Other income		**8,729**	3,686
Changes in fair value less costs to sell in respect of biological assets		**(132)**	(264)
Selling and distribution costs		**(41,221)**	(36,704)
Administrative expenses		**(15,744)**	(16,730)
Other expenses		**(121)**	(3)
Finance costs	*4*	**(219)**	(1,446)
Profit before taxation	*5*	**1,131**	21,164
Income tax expense	*6*	**—**	—
Profit for the period		**1,131**	21,164
Earnings per share	*8*		
Basic and diluted (RMB cents)		**0.04**	0.71

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit for the period		**1,131**	21,164
Other comprehensive (expense)/ income for the period			
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences arising on translation of foreign operations		**(2,068)**	7,110
Total comprehensive (expense)/income for the period attributable to owners of the Company		**(937)**	28,274

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**131,539**	137,237
Current assets			
Inventories		**41,906**	41,827
Biological assets		**327**	457
Trade and other receivables	9	**50,241**	65,584
Amounts due from related parties		**27,657**	8,075
Pledged bank deposits		**10**	10
Deposit with bank		**20,000**	20,000
Bank balances and cash		**15,427**	22,312
		155,568	158,265
Current liabilities			
Trade and other payables	10	**118,514**	127,121
Amounts due to related parties		**114**	660
Bank borrowings		**9,415**	5,610
Income tax payables		**9,066**	9,066
Provisions		**393**	2,503
		137,502	144,960
Net current assets		**18,066**	13,305
Total assets less current liabilities		**149,605**	150,542

	Notes	**30 June 2017** *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Net assets		**149,605**	150,542
Capital and reserves			
Share capital	*11*	**277,878**	277,878
Reserves		**(128,273)**	(127,336)
Total equity		**149,605**	150,542

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. 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 Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate parent company is Fortune Station Limited, which was incorporated in the British Virgin Islands ("**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; (2) 25.72% by Mr. CHEN Qiyuan, the Chairman of the board of directors; and (3) 24.71% by Ms. WAN Yuhua, a former director and the former chief executive officer of the Company (collectively referred to as the "**Controlling Shareholders**").

The condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 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 RMB1,566,520,000 as at 30 June 2017 and net cash outflow from operating activities of approximately RMB8,390,000 for the six months ended 30 June 2017. In view of such circumstances, the directors of the Company 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 of the Company, 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 RMB15,427,000 and net current assets of approximately RMB18,066,000 as at 30 June 2017;

(ii) the Group had unutilised banking facilities of approximately RMB80,590,000 as at 30 June 2017; and

(iii) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

In light of the above, the directors of the Company are of the opinion that it is still appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2017 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, except for biological assets which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except as described below.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretation ("**new and revised IFRSs**") issued by the IASB which are effective for the Group's financial year beginning on 1 January 2017.

Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle: Amendments to IFRS 12
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Except as described below, the application of the new and revised 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.

Annual Improvements to IFRSs 2014–2016 Cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendment to IFRS 12 clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

The amendments should be applied retrospectively. The directors of the Company considered that the application of the amendments to IFRS 12 has had no material impact on the Group's condensed consolidated financial statements.

Amendments to IFRS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to IFRS 7 results in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances for liabilities arising from financing activities. The Group will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods.

Amendments to IFRS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference.

The amendments should be applied retrospectively. The directors of the Company considered that the application of the amendments to IFRS 12 has had no material impact on the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable of the goods sold to customers, net of discounts allowed, volume rebates and sales related taxes where applicable.

For the purposes of resource allocation and assessment of segment performance, information reported to the executive directors of the Company, being the chief operating decision maker focuses on a mixture of product lines and geography. 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 chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

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

Also, the executive directors of the Company are provided with segment information concerning segment revenue and result. Segment assets and liabilities are not reported to the executive directors of the Company 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 2017

	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	**91,512**	**2,569**	**13,045**	**107,126**
Segment profit/(loss)	**298**	**(739)**	**(4,204)**	**(4,645)**
Changes in fair value less costs to sell in respect of biological assets				**(132)**
Bank interest income				**186**
Other income				**8,543**
Corporate and other unallocated expenses				**(2,602)**
Finance costs				**(219)**
Profit before taxation				**1,131**

For the six months ended 30 June 2016

	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	**107,837**	**9,753**	**17,806**	**135,396**
Segment profit/(loss)	**25,505**	**1,698**	**(5,389)**	**21,814**
Changes in fair value less costs to sell in respect of biological assets				(264)
Bank interest income				213
Other income				3,473
Corporate and other unallocated expenses				(2,626)
Finance costs				(1,446)
Profit before taxation				21,164

Segment results represent the profit/(loss) made by each segment without allocation of changes in fair value less costs to sell of biological assets, bank interest income, compensation income, net exchange gains/losses, central administration costs, directors' emoluments and finance costs. This is the measure reported to the executive directors of the Company for the purposes of resource allocation and performance assessment.

4. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Imputed interest on non-interest bearing loans from controlling shareholders	**—**	1,446
Interest on bank borrowings	**219**	—
	219	1,446

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**(186)**	(213)
Depreciation of property, plant and equipment	**6,097**	5,205
Impairment loss recognised in respect of trade receivables	**1,549**	2,075
Net loss on disposal of property, plant and equipment	**14**	3
Redundancy costs	**125**	–
Write-down of inventories (included in cost of sales)	**1,724**	468

6. INCOME TAX EXPENSE

(i) Under the Law of the People's Republic of China ("**PRC**") on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries 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 and the qualification was renewed and valid until 2018. However, Bawang Guangzhou did not have any assessable profits subject to Enterprise Income Tax for the six months ended 30 June 2017 and had tax losses brought forward to offset the assessable profits generated for the six months ended 30 June 2016.

(ii) No provision for Hong Kong Profits Tax has been provided as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016.

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

(iv) Pursuant to the Implementation Rules of the EIT Law, overseas investors of foreign investment companies 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 incorporated in Hong Kong which holds 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 2017 and 2016, respectively, since the PRC subsidiaries had accumulated losses as at 30 June 2017 and 2016.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the earnings for the period of approximately RMB1,131,000 (six months ended 30 June 2016: approximately RMB21,164,000) and the weighted average number of approximately 3,161,811,000 (six months ended 30 June 2016: approximately 2,981,866,000) ordinary shares in issue during the period.

For the six months ended 30 June 2017 and 2016, respectively, the diluted earnings per share are the same as the basic earnings per share.

The computation of diluted earnings per share for the six months ended 30 June 2017 and 2016 did not assume the exercise of the Company's share options as the effect is anti-dilutive.

9. 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 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0–90 days	**27,228**	23,952
91–180 days	**9,709**	11,203
181–365 days	**5,195**	2,249
Over 365 days	**75**	6,938
Total debtors, net of allowance for impairment of trade receivables	**42,207**	44,342
Prepayment for purchase of raw materials	**1,348**	1,516
Short-term prepaid advertising fee	**409**	212
Litigation costs receivable	**—**	16,101
Other receivables	**6,277**	3,413
	50,241	65,584

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

10. 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0–30 days	**18,415**	25,540
31–90 days	**8,442**	8,106
Total creditors	**26,857**	33,646
Receipt in advance	**16,075**	14,306
Payable for acquisition of property, plant and equipment	**2,101**	4,287
Promotion fee payable	**5,929**	14,875
Accrued payroll	**852**	874
Other payables and accruals	**66,700**	59,133
	118,514	127,121

11. SHARE CAPITAL

	Number of shares '000	Amount RMB$'000
Ordinary shares of HK$0.1 each		
Authorised ordinary shares:		
At 1 January 2016 (audited), 31 December 2016 (audited) and 30 June 2017 (unaudited)	10,000,000	880,500
Issued and fully paid ordinary shares:		
At 1 January 2016 (audited)	2,911,811	256,705
Issue of 250,000,000 new shares of HK$0.1 each at a price of HK$0.31 each per placing share by way of placing in May 2016 *(Note)*	250,000	21,173
At 31 December 2016 (audited), 1 January 2017 (audited) and 30 June 2017 (unaudited)	3,161,811	277,878

Note: The shares rank pari passu with the existing shares in all respects.

12. COMMITMENTS

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Capital commitments for acquisition of property, plant and equipment contracted for but not provided for in the condensed consolidated financial statements	**2,406**	2,406

BUSINESS REVIEW

The Directors reported that the total revenue of the continuing operations of the Group for the six months ended 30 June 2017 was approximately RMB107.1 million, representing a decrease of approximately 20.9% from approximately RMB135.4 million for the same period last year. The operating profit from the continuing operations of the Group for the six months ended 30 June 2017 was approximately RMB1.4 million, representing a decrease of approximately 94.0% from approximately RMB22.6 million for the same period last year.

For the six months ended 30 June 2017, the net profit from the continuing operations of the Group was approximately RMB1.1 million, representing a decrease of approximately 94.7% from approximately RMB21.2 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 which enabled the Group to reduce the costs of sales and administration for the six months ended 30 June 2017.

To kick-start the corporate operational theme of the year "To quantify with performance following the precise execution of plans", a national distributors meeting was held in January 2017 in Guangzhou to introduce the new Bawang shampoo products, to explain the Group's investments in brand building and expansion of channels, and to demonstrate the upcoming marketing campaigns and publicity programs for the year. To further motivate the Group's distributors and sales team, incentive leisure travel scheme for the participating distributors and internal staff members will be offered for free to those who complete the predetermined sales target for a specified period.

In May 2017, the Group participated in the China Beauty Expo in Shanghai, which is one of the key cosmetic industry events in China. The expo provided a platform for the Group to promote its various branded products in an international arena, to get hold the latest development and trend in the industry in China and to explore business opportunities with potential partners and distributors.

To enhance the sales of Bawang branded products, extensive in-store promotions were carried out on various festive days throughout the period.

In the International Children's Day on 1 June 2017, a joint promotional program between the Group and a popular animated character "Superwing" was carried out at the stores to enhance the brand image of "Little King", which is our branded personal and skin care product series for children.

As at 30 June 2017, the Bawang brand distribution network comprised approximately 609 distributors and 18 KA retailers, covering 27 provinces and four municipalities in China. Furthermore, the products of the Group were also sold in Hong Kong, Singapore, Thailand, Malaysia and Venezuela.

During the period under review, the Group marketed Royal Wind branded shampoo products with the theme "Let's chase for the wind rather than wait for the wind". As at 30 June 2017, the Royal Wind brand distribution network comprised approximately 609 distributors and 18 KA retailers, covering 27 provinces and four municipalities in China.

The Litao products mainly comprise 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. During the period under review, the Litao products were also sold through cosmetic specialty shops throughout China. As at 30 June 2017, the Litao products distribution network comprised approximately 609 distributors and two KA retailers, covering 27 provinces and four municipalities in China.

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 2017, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 93 distributors and one KA retailer covering 27 provinces and four municipalities in China. The Group is also selling the products at approximately 960 counters in cosmetics specialty shops throughout China.

As at 30 June 2017, the Group has established online flagship stores for our Bawang, Royal Wind and Herborn branded products on 39 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 in possession of the following certificates and/or accreditations:

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

— Bawang brand name was awarded as "Consumers' Reliable Brand" in the 2016 China Trendy Industry by the Information Times News Agency in January 2017;

— three Bawang branded shampoos were recognised as "The 2015 New High-Tech Products in Guangdong" by the Guangdong Provincial Bureau of Science & Technology for a period of three years until the end of 2018;

- our production process for haircare and skincare products has been certified by SGS with a validity period until July 2019 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 2019 as to meet the requirements of ISO22716 by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2007; and
- the Bawang brand was recommended and recognised as a "China Leading Brand" in the 22nd China Beauty Expo held in May 2017.

FINANCIAL REVIEW

Continuing Operations

Revenue

During the six months ended 30 June 2017, the Group's revenue of the continuing operations amounted to approximately RMB107.1 million, representing a decrease of approximately 20.9% from approximately RMB135.4 million during the same period last year. The decrease was primarily due to the decrease in purchase orders from the distributors for the six months ended 30 June 2017.

During the six months ended 30 June 2017, the Group's core brand, Bawang, generated a revenue of approximately RMB87.5 million, which accounted for approximately 81.7% of the Group's total revenue of continuing operations, and represented a decrease of approximately 17.2%, as compared with the same period last year.

During the six months ended 30 June 2017, the Group's branded Chinese herbal anti-dandruff haircare series, Royal Wind, generated a revenue of approximately RMB8.1 million, which accounted for approximately 7.5% of the Group's total revenue of continuing operations, and represented a decrease of approximately 7.4%, as compared with the same period last year.

During the six months ended 30 June 2017, the Group's natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated a revenue of approximately RMB7.3 million, which accounted for approximately 6.8% of the Group's total revenue of continuing operations, and represented a decrease of approximately 35.2%, as compared with the same period last year.

During the six months ended 30 June 2017, the Group's branded Chinese herbal skincare series, Herborn, generated a revenue of approximately RMB2.6 million, which accounted for approximately 2.4% of the Group's total revenue of continuing operations, and represented a decrease of approximately 73.6%, as compared with the same period last year.

We sold our products through extensive distribution and retail networks. During the six months ended 30 June 2017, sales to our distributors and retailers represented approximately 86.2% and approximately 13.8% of the Group's total revenue of continuing operations respectively.

During the six months ended 30 June 2017, our products were also sold in Hong Kong, Singapore, Thailand, Malaysia and Venezuela. The sales to these overseas markets outside China accounted for approximately 4.2% of our total revenue of continuing operations during the six months ended 30 June 2017.

Cost of Sales

During the six months ended 30 June 2017, cost of sales amounted to approximately RMB57.3 million, representing a decrease of approximately RMB5.5 million (or approximately 8.7%) from approximately RMB62.8 million during the same period last year. The overall decrease in cost of sales was primarily due to a decrease in 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 2017 increased from approximately 46.4% in 2016 to approximately 53.5%, which was mainly due to an increase in unit cost incurred in raw materials, packaging materials and direct labour.

Gross Profit

During the six months ended 30 June 2017, the Group's gross profit amounted to approximately RMB49.8 million, representing a decrease of approximately 31.4% from approximately RMB72.6 million for the same period last year. The gross profit margin for the six months ended 30 June 2017 also decreased from approximately 53.6% in 2016 to approximately 46.5%. The decrease in the gross profit margin was mainly attributable to the decrease of revenue and also by the increase in raw and packaging materials and labour costs.

Selling and Distribution Costs

During the six months ended 30 June 2017, selling and distribution costs amounted to approximately RMB41.2 million, representing an increase of approximately 12.3% from approximately RMB36.7 million for the same period last year. Such increase was primarily due to the increase in brand building expenses in online sales channels and travelling and marketing survey expenses.

Administrative Expenses

During the six months ended 30 June 2017, administrative expenses amounted to approximately RMB15.7 million, representing a decrease of approximately 5.9% from approximately RMB16.7 million for the same period last year. The decrease was primarily due to the decrease in legal expenses and the bad debt provision, which was partially offset by an increase in R&D expenses.

Profit from Operations

The Group recorded an operating profit from its continuing operations of approximately RMB1.4 million for the six months ended 30 June 2017, representing a decrease of approximately 94.0% from approximately RMB22.6 million for the same period last year. Such decrease is primarily attributable to the decrease in the revenue of the continuing operations of Group by approximately 20.9% and also by the increase in the costs of sales.

Finance Income and Costs

For the six months ended 30 June 2017, finance income of the Group amounted to approximately RMB0.2 million, roughly the same as that for the same period last year.

For the six months ended 30 June 2017, interest on bank borrowings amounted to approximately RMB0.2 million (six months ended 30 June 2016: nil), and there was no imputed interest on non-interest bearing loans from controlling shareholders (six months ended 30 June 2016: approximately RMB1.4 million).

Other Income

The Group recorded other income of approximately RMB8.7 million for the six months ended 30 June 2017, representing an increase of approximately 136.8% from approximately RMB3.7 million for the same period last year. Such increase was primarily attributable to the increase in government grants, exchange gains and write-back of excessive provision for selling expenses that were made in previous years, which was partially offset by a decrease in receivables from litigation claims.

Income Tax Expense

During the two six month periods ended 30 June 2017 and 30 June 2016, respectively, the Group did not have any income tax expense and/or reversal.

Net Profit for the Period from Operations

As a result of the combined effect of the abovementioned factors, the Group recorded a net profit of approximately RMB1.1 million for the six months ended 30 June 2017, representing a decrease of approximately 94.7% from approximately RMB21.2 million for the six months ended 30 June 2016.

Discontinued Operation

The Board discontinued the production and sales of herbal tea products from 1 July 2013. During the period under review, the business operation of herbal tea products was dormant without any revenue or expense attributable to the Group.

Profit for the Period Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded a profit attributable to owners of the Company of approximately RMB1.1 million for the six months ended 30 June 2017, representing a decrease of approximately 94.7% from approximately RMB21.2 million for the same period last year.

Events after the Reporting Period

As disclosed in the Company's announcement dated 9 August 2016, on 9 August 2016, Bawang (Guangzhou) Co., Ltd. ("**Bawang Guangzhou**"), a wholly foreign owned and limited liability company established in the PRC and a wholly-owned subsidiary of the Group, and Guangzhou Bawang Cosmetics Co., Ltd ("**Guangzhou Bawang**"), a company beneficially owned as to 20% by Mr. CHEN Zheng He, the Chief Executive Officer and an executive Director of the Company, and 80% by Mr. CHEN Zheng He's six brothers and sisters, entered into the Production Plant Lease Agreement and Office Premises Lease Agreement (the "**New Lease Agreements**"), in relation to the lease of production plant (the "**Production Plant**") and office premises (the "**Office Premises**") used by the Group for a term of three years commencing from 9 August 2016, which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 2 August 2017, Bawang Guangzhou served a notice to Guangzhou Bawang to inform its intention to move out of the Office Premises on 1 November 2017. The Company intends to relocate its offices from the Office Premises to a new location that is closer to our Production Plant. The Directors believe that the relocation will strengthen inter-departmental communication, thereby enhancing collaboration and operational efficiency. The Company has commenced the search for suitable premises as our new offices and will make an announcement and comply with the applicable requirements under the Listing Rules when a new office lease has been entered into.

For details, please refer to the announcement of the Company dated 2 August 2017.

OUTLOOK

Economic momentum remained resilient in the second quarter of 2017 which has been supported by strong domestic dynamics and healthy global demand. The International Monetary Fund has raised its forecast for China's economic growth this year to 6.7%, citing "policy support, especially expansionary credit and public investment".

With the growth target set to comfortably 6.5% for 2017, authorities are expected to put more emphasis on addressing economic imbalances and deepening reforms through the end of the year.

Some economists forecast that the Chinese economy is expected to decelerate in 2017 as the property sector cools, manufacturing growth slows, and government fiscal stimulus is pulled back due to unsustainable levels of debt.

When formulating the business strategies of the Group, the Directors would take all these views on the upcoming macro-economic environment into consideration.

The corporate operational theme for the rest of 2017 is "To quantify with performance following the precise execution of plans".

For Bawang branded product series, the Group intends to expand its market segment which also covers the younger generation. Trendy and colorful packing will be designed to attract the young customers. Through internet and social media, the Group will retain popular webhosts to disseminate the concept of doing haircare through traditional Chinese medicine. The Group will also educate the young customers on the importance of taking precautionary steps for anti-hair fall while they are young.

For Little King branded product series, which has been in the market for about a year, the Group will work on the brand-building process and will target to broaden both the traditional sales as well as online sales channels. Instore promotional and publicity programs will be carried out to build up its brand image and enhance sales revenue.

For Royal Wind branded product series, the Group will continue with the market slogan, "Let's chase for the wind rather than wait for the wind." Attractive product packings for new haircare product series will be tailor-made to match with the trendy lifestyle of young customers.

For Herborn branded products series, the Group will continue to expand online sales platforms to increase the sales revenue.

For the channel developments, the Group will take a cautious approach for the development of sales channels through the conventional stores. The Group will concentrate its efforts to explore the potential of the cosmetic specialty shop channel and to recruit those distributors who have obtained an exclusive right to sell the HPC products in the dedicated area inside the contracted supermarkets. Whilst the Group will appropriately invest in the development of online sales channels, which has rapidly developed over the past two years, the Group will review the channel performances to check if they are in line with the pre-determined targets.

For production management, the Group has taken measures to upgrade the following operating systems along the production lines, viz.: cleaning-in-place, sterilising-in-place, materials storage and conveying, and wasted water detection. A quality control bonus pool has been set up to encourage the workers' participation in the quality control. We believe that quality comes first, quantity will follow. We will make every effort to ensure the product quality and safety.

As part of the business expansion plan, the Group will continue to explore the possibility to co-operate with potential distributors in launching our branded products to other countries. 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 volatile economic environments will focus on two areas: in the short run, the Group intends to increase its revenue by exploring new sales channels in household and personal care ("**HPC**") products for regaining the sales growth momentum and profitability, and to improve investors' confidence in the Group; in the long run, the Group will continue to focus on strengthening its business model and market positioning to increase its market share among domestic and international competitors, maintaining a multi-brand and multi-product strategies in the HPC sector, and becoming a leader in the branded Chinese herbal HPC products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

	30 June 2017	31 December 2016
	RMB in million	*RMB in million*
	(Unaudited)	(Audited)
Cash and cash equivalent	**15.4**	22.3
Total loans	**9.4**	5.6
Total assets	**287.1**	295.5
Gearing ratio[Note]	**3.3%**	1.9%

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 HEDGE

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. In addition, the Group paid certain advertising fees in United States Dollars or Hong Kong Dollars.

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

As at 30 June 2017, the Group had not issued any material financial instruments or entered into 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 2017, the Group did not have any significant contingent liabilities.

CAPITAL COMMITMENT

As at 30 June 2017, the capital commitment for acquisition of property, plant and equipment of the Group was approximately RMB2.4 million.

CHARGE OF ASSETS

As at 30 June 2017, buildings with carrying values of approximately RMB3,803,000 (2016: approximately RMB3,927,000) and pledged bank deposits of approximately RMB10,000 (2016: approximately RMB10,000) had been pledged to secure banking facilities granted to the Group. As at 30 June 2017, banking facilities of approximately RMB3,810,000 were utilised and approximately RMB80,590,000 were unutilised and available for the Group's future financing.

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.

THE CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

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 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 2017.

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 Corporate Governance Code. The Audit and Risk Management Committee has reviewed the interim results of the Group for the six months ended 30 June 2017 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 2017.

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 2017 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, 30 August 2017

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. LI Bida and Mr. CHEUNG Kin Wing.