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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") would like to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2011 together with comparative figures for the corresponding period in 2010.

* *for identification purpose only*

Consolidated income statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	**2011**	2010
		RMB'000	*RMB'000*
Turnover	4	**888,909**	1,475,355
Cost of sales		**(544,154)**	(564,017)
Gross profit		**344,755**	911,338
Changes in fair value less costs to sell of biological assets		**1,462**	—
Other revenue		**2,451**	1,810
Other net income/(losses)		**841**	(1,399)
Selling and distribution costs		**(872,339)**	(941,811)
Administrative expenses		**(102,457)**	(101,511)
Loss from operations		**(625,287)**	(131,573)
Finance income	5(a)	**10,860**	13,043
Finance costs	5(a)	**(4,110)**	(15,601)
Net finance income/(cost)		**6,750**	(2,558)
Loss before taxation	5	**(618,537)**	(134,131)
Income tax credit	6(a)	**59,967**	16,160
Loss for the year attributable to the equity shareholders of the Company		**(558,570)**	(117,971)
Loss per share (RMB yuan)			
Basic	8(a)	**(0.19)**	(0.04)
Diluted	8(b)	**(0.19)**	(0.04)

Details of dividends payable to equity shareholders of the Company are set out in Note 7.

Consolidated statement of comprehensive income

For the year ended 31 December 2011
(Expressed in Renminbi)

	2011 *RMB'000*	2010 *RMB'000*
Loss for the year attributable to the equity shareholders of the Company	**(558,570)**	(117,971)
Other comprehensive income for the year		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(5,178)**	(18,497)
Total comprehensive income for the year attributable to the equity shareholders of the Company	**(563,748)**	(136,468)

Consolidated balance sheet

At 31 December 2011
(Expressed in Renminbi)

	Note	**2011** **RMB'000**	2010 RMB'000
Non-current assets			
Property, plant and equipment		**184,555**	60,136
Prepaid advertising fee		**3,875**	2,437
Biological assets		**1,297**	—
Deferred tax assets		**82,605**	27,089
		272,332	89,662
Current assets			
Inventories		**112,159**	84,216
Biological assets		**949**	—
Trade and other receivables	9	**257,972**	440,060
Pledged deposits		**—**	220,000
Cash and cash equivalents		**602,672**	1,186,544
Income tax recoverable		**—**	12,892
		973,752	1,943,712
Current liabilities			
Trade and other payables	10	**201,825**	228,793
Bank loans and overdrafts		**—**	209,787
Amounts due to related parties		**3,730**	3,363
Income tax payable		**9,656**	—
		215,211	441,943
Net current assets		**758,541**	1,501,769
Total assets less current liabilities		**1,030,873**	1,591,431

	Note	2011	2010
		RMB'000	*RMB'000*
Non-current liabilities			
Deferred tax liabilities		**2,031**	2,031
Net assets		**1,028,842**	1,589,400
Capital and reserves			
Share capital		**256,511**	256,380
Reserves		**772,331**	1,333,020
Total equity		**1,028,842**	1,589,400

Notes:

1. Reporting entity

BaWang International (Group) Holding Limited (the "Company") was incorporated in the Cayman Islands on 11 December 2007 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as "Group") and are expressed in Renminbi unless otherwise indicated. The Group is primarily engaged in the manufacturing and sales of household and personal care products. The Group is also engaged in the sales of herbal tea products since June 2010.

2. Statement of compliance

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2011 but are extracted from those audited consolidated financial statements.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

- ISA 24 (revised 2009), Related party disclosures

- Improvements to IFRSs (2010)

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

The impacts of these developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the group because the group is not a government-related entity.

- *Improvements to IFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures.* The disclosures about the group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

3. Segment reporting

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

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

(a) Segment results, assets and liabilities

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

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

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

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out as below:

	Hair-care products		Herbal tea products		Skin-care products		Other household and personal care products		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Reportable segment revenue										
Revenue from external customers	567,404	1,328,079	167,263	69,757	89,060	27,272	65,182	50,247	888,909	1,475,355
Inter-segment revenue	2	199	4,296	1,214	1	—	—	—	4,299	1,413
	567,406	1,328,278	171,559	70,971	89,061	27,272	65,182	50,247	893,208	1,476,768
Reportable segment loss										
Adjusted loss from operations	(482,694)	(39,888)	(86,851)	(65,084)	(38,912)	(3,306)	(1,919)	(2,339)	(610,376)	(110,617)

(b) Reconciliations of reportable segment revenue and results

Revenue

	2011 *RMB'000*	2010 *RMB'000*
Reportable segment revenue	**893,208**	1,476,768
Elimination of inter-segment revenue	**(4,299)**	(1,413)
Consolidated turnover	**888,909**	1,475,355

Results

	2011	2010
	RMB'000	*RMB'000*
Reportable segment loss	**(610,376)**	(110,617)
Elimination of inter-segment profits	**130**	(130)
Changes in fair value less costs to sell of biological assets	**1,462**	—
Other revenue	**2,451**	1,810
Other net income/(losses)	**841**	(1,399)
Unallocated head office and corporate expenses	**(19,795)**	(21,237)
Finance income	**10,860**	13,043
Finance costs	**(4,110)**	(15,601)
Consolidated loss before taxation	**(618,537)**	(134,131)

(c) Geographic information

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

	Revenues from external customers		**Specified non-current assets**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**866,469**	1,413,695	**187,626**	58,957
Hong Kong	**13,813**	41,146	**2,101**	3,616
Singapore	**2,388**	13,325	**—**	—
Malaysia	**705**	4,461	**—**	—
Myanmar	**1,148**	1,119	**—**	—
Brunei	**—**	706	**—**	—
The United Arab Emirates	**—**	903	**—**	—
Thailand	**3,482**	—	**—**	—
Australia	**904**	—	**—**	—
	22,440	61,660	**2,101**	3,616
	888,909	1,475,355	**189,727**	62,573

4. Turnover

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

Turnover represents the sales value of goods supplied to customers. Turnover excludes value added taxes and is after deduction of any trade discounts and business taxes and surcharges. The amount of each significant category of revenue recognised in turnover during the years is as follows:

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Hair-care products	**567,404**	1,328,079
Herbal tea products	**167,263**	69,757
Skin-care products	**89,060**	27,272
Other household and personal care products	**65,182**	50,247
	888,909	1,475,355

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenues.

5. Loss before taxation

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

(a) Finance income and costs

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**10,860**	13,043
Finance costs		
Interest on bank borrowings	**(3,154)**	(5,115)
Bank charges on bank borrowings	**—**	(2,016)
Net foreign exchange losses	**(956)**	(8,470)
Subtotal	**(4,110)**	(15,601)
Net finance income/(costs)	**6,750**	(2,558)

(b) Staff costs*

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**258,172**	129,700
Equity-settled share-based payment expenses	**3,059**	8,413
Contributions to defined contribution retirement plan	**8,362**	5,599
	269,593	143,712

Staff costs included directors' remuneration.

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

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

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

(c) Other items

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Depreciation*	**15,490**	8,252
Auditors' remuneration	**1,380**	1,250
Cost of inventories*	**544,154**	564,017
Impairment loss for bad and doubtful debts (Note 9(b))	**1,725**	149

* Cost of inventories includes RMB46,355,000 (2010: RMB40,260,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6. Income tax credit

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

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the year	**—**	9,660
Over-provision in respect of prior years	**(509)**	(2,476)
	(509)	7,184
Current tax — Hong Kong income tax		
Provision for the year	**—**	3,745
Over-provision in respect of prior years	**(3,942)**	—
	(3,942)	3,745
Deferred tax — PRC income tax		
Origination of temporary differences	**(55,516)**	(27,089)
Income tax credit	**(59,967)**	(16,160)

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

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

In accordance with the Implementation Rules and grandfathering arrangements of the Corporate Income Tax Law of the PRC ("**CIT Law**") which started to take effect on 1 January 2008, Bawang Guangzhou continued to be eligible for the "two-year exemption and three-year 50% reduction" tax holiday from 2006 to 2010. The applicable income tax rate of Bawang Guangzhou in 2010 was 12.5%.

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

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

(iv) Pursuant to the Implementation Rules of the CIT Law, overseas investors to foreign investment companies ("**FIE**") shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which is the beneficiary owner holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group did not make provision of withholding income tax for the year ended 31 December 2011 since the PRC subsidiaries, both Bawang Guangzhou and Bawang Beverage, incurred losses in the current year.

(v) The provision for Hong Kong Profits Tax was made by Hong Kong Bawang International Trading Limited ("**Bawang Trading**"). Its applicable income tax rate is 16.5%.

(b) Reconciliation between income tax credit and accounting loss at applicable tax rates:

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Loss before income tax	**(618,537)**	(134,131)
Income tax on loss before tax, calculated at the rates applicable to the PRC operations (i.e. 25%)	**(154,634)**	(33,533)
Effect of unused tax losses not recognised	**28,348**	966
Effect of other deductible temporary differences not recognised as deferred tax assets	**8,963**	—
Effect of tax rate differential (i)	**30,904**	22,167
Effect on deemed taxable income (ii)	**1,397**	984
Effect of non-deductible expenses	**3,689**	5,392
Effect of tax concessions (iii)	**25,816**	(9,660)
Bonus deduction of R&D expenses (iv)	**(2,568)**	(2,689)
(Over)/under provision in prior year	**(1,882)**	213
Income tax credit	**(59,967)**	(16,160)

(i) The effect of tax rate differential mainly represented the effect of the difference in tax rates among the Company and its subsidiaries and the tax effect arising from difference between the tax rate of 25% being applied in the computation of expected income tax and the rate for recognising the deferred tax.

(ii) Effect on deemed taxable income represents deemed sales income in respect of promotional goods provided to customers at nil consideration, which is calculated in accordance with the CIT law of the PRC.

(iii) Effect of tax concessions represents the difference between standard income tax rate and preferential income tax rate enjoyed by Bawang Guangzhou as set out in Note 6(a)(ii).

(iv) According to Tax Notice on Provisional Administrative Measures governing Pre-CIT Deduction of R&D Expenses (Guoshuifa [2008] No. 116) issued by the State Administration of Taxation, effective from 1 January 2008, R&D expenses, which are not capitalised, are qualified for bonus deduction for income tax purpose, i.e. an additional 50% of such expenses could be deemed as deductible expenses.

7 Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
No dividend declared and paid in 2011 (Interim and special dividends declared and paid in 2010: HK 4 cents per ordinary shares)	**—**	101,600

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

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
No final dividend in respect of the previous financial year, approved and paid in 2011 (2010: HK 4.25 cents per ordinary share)	**—**	108,054
No special dividend in respect of the previous financial year, approved and paid in 2011 (2010: HK 4.25 cents per ordinary share)	**—**	108,054
	—	216,108

8 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB558,570,000 (2010: RMB 117,971,000) and the weighted average of 2,908,606,062 ordinary shares (2010: 2,906,389,810 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	For the year ended 31 December	
	2011	2010
Issued ordinary shares at 1 January	**2,907,820,720**	2,905,000,000
Effect of share option exercised	**785,342**	1,389,810
Weighted average number of ordinary shares at 31 December	**2,908,606,062**	2,906,389,810

(b) Diluted loss per share

The calculation of diluted loss per share for the years ended 31 December 2011 and 2010 does not assume the exercise of the Company's share options as the effect is anti-dilutive.

9. Trade and other receivables

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade debtors and bills receivable	**150,387**	314,481
Less: allowance for doubtful debts (Note 9(b))	**(3,517)**	(1,792)
	146,870	312,689
Prepayment for purchase of raw materials	**2,112**	2,656
Prepayment for purchase of fixed assets	**26,944**	18,478
Prepaid advertising fee	**71,699**	87,021
Other receivables	**10,347**	19,216
	257,972	440,060

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

(a) Ageing analysis

Included in trade and other receivables of the Group are trade debtors of the Group and bills receivable (net of allowance for doubtful debts) with the following ageing analysis by due date as of the balance sheet date:

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current	**111,636**	278,427
Less than 3 months past due	**31,000**	29,798
More than 3 months but less than 6 months past due	**3,618**	5,130
More than 6 months but less than 12 months past due	**3,529**	553
More than 12 months past due	**604**	573
	150,387	314,481
Less: impairment loss for doubtful debts	**(3,517)**	(1,792)
	146,870	312,689

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable of the Group are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including mainly the specific losses, is as follows:

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**1,792**	1,650
Impairment loss recognised	**1,725**	149
Uncollectible amounts written off	**—**	(7)
At 31 December	**3,517**	1,792

At 31 December 2011, the Group's trade debtors and bills receivable of RMB3,158,000 (2010: RMB985,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that full amount of these receivables cannot be recovered. Consequently full provisions for these doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**111,368**	277,710
Less than 3 months past due	**30,928**	29,721
More than 3 months but less than 6 months past due	**3,610**	5,117
More than 6 months but less than 12 months past due	**962**	141
More than 12 months but less than 24 months past due	**2**	—
	35,502	34,979
	146,870	312,689

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

10. Trade and other payables

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade payables	**65,341**	58,673
Receipts in advance	**30,530**	57,460
Promotion fee payable	**20,946**	33,092
Accrued payroll	**27,390**	18,525
Derivative financial instruments	**—**	3,757
Other payables and accruals	**57,618**	57,286
	201,825	228,793

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

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

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Due within 1 month or on demand	**56,514**	40,390
Due after 1 month but within 3 months	**8,827**	18,283
	65,341	58,673

11. Commitments

Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	At 31 December	
	2011	2010
	RMB'000	*RMB'000*
Contracted for	**56,945**	27,923
Authorised but not contracted for	**97**	—

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Directors report that the total revenue of the Group for 2011 was RMB888.9 million, representing a decrease of 39.7% as compared to 2010. The Group recorded a loss of RMB558.6 million for 2011 as compared to a loss of RMB118.0 million for 2010. For period to period comparison of the performance on a half yearly basis, the total revenue of the Group for the second half of 2011 was RMB449.1 million, representing an increase of 2.1% as compared to the first half of 2011. The Group recorded a loss of RMB263.7 million for the second half 2011 as compared to a loss of RMB294.9 million for the first half of 2011, indicating an improvement in the overall results of our business of 10.6%. Please refer to the Financial Review section of this results announcement for details of the operating performance of the Group.

The Directors would like to indicate that in the first half of 2010, the Group was operating and developing its businesses under normal conditions. Ever since the dioxane incident in July 2010, the Group has made enormous and continuous efforts in an attempt to recover and mitigate the negative impact on its businesses arising from the incident. Analysis of the revenue by brands for 2011 has revealed that Bawang (霸王品牌) and Royal Wind (追風品牌) branded shampoos generated an aggregate revenue of RMB332.2 million for the second half of 2011, representing an increase of 43.5% as compared to the first half of 2011. The Directors feel that the Group starts seeing light at the end of the tunnel.

During the year under review, the Group took a series of measures in order to increase the sales of our Chinese herbal shampoo and haircare products such as the brand revitalization programme for recapturing brand equity, and identifying and stabilizing new sources of brand equity for Bawang branded portfolio along the lines of Bawang and Royal Wind branded series; followed by the commencement of the replacement programme for inventories of Bawang branded products in the distribution channels; implementation of the Sales Automation Management Systems (SAMS) for efficient and effective channel management; prioritizing the recovery of the modern trade channels, thereafter assignment of Mr. Jacky Chan (成龍) as the principal brand ambassador for the promotion of Bawang brand image; and appointment of "Korean Top Beauty" movie star Ms. Kim Hui Seon (金喜善) as the brand ambassador for the promotion of our new female-oriented product series. Last but not least, Mr. Jacky Chan speaks for the enhanced version of the Anti-hair Fall series (防脫系列) advocating a concept of "Prevention is always better than cure", whilst Ms. Kim Hui Seon promotes the new Hair Blackening series (烏髮系列) and the new female-oriented Nutri-reparing series (滋補系列).

As of 31 December 2011, the Bawang brand distribution network comprised around 543 distributors and 51 KA retailers, covering 27 provinces and four municipalities. During the year under review, five distributors renewed their contracts with the Group as KA retailers. Furthermore, the products are sold in Hong Kong, Macau, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia.

During the year under review, the Group revamped and consolidated the original Royal Wind Chinese herbal anti-dandruff shampoo series into four major product series, which are all targeted at young and fashionable consumers with dandruff problem. We carried out a replacement programme for inventories of Royal Wind branded products in the second half of 2011 with similar operations to that of Bawang's in early 2011. The programme was basically completed by the end of 2011.

New generation pop music singer Mr. Han Geng (韓庚) has been selected as the brand ambassador for Royal Wind series for the promotion of its brand image. With his energetic, healthy and fashionable image, we believe that he will successfully portray the brand personality of Royal Wind and increase its brand awareness and recognition. According to the brand positioning of Royal Wind, we strategically select the publicity channels through modern media such as the internet, public transport TV commercials, mobile phone messaging, etc.

As of 31 December 2011, the distribution network comprised approximately 461 distributors and 49 KA retailers, covering 27 provinces and four municipalities. During the year under review, five distributors renewed their contracts with the Group as KA retailers. Furthermore, the products are sold in Singapore.

As of 31 December 2011, the Litao (麗濤) brand distribution network comprised approximately 379 distributors, covering 26 provinces and four municipalities. The Litao range of enhanced products targets the mid-low end segment in the PRC market, achieving the Company's goal to increase the market coverage of its products.

In relation to our Chinese herbal skincare products series, Herborn (本草堂), its target customers are white-collar females aged between 25 and 45 who have high purchasing power and pursue a healthy and natural lifestyle. The internationally renowned celebrity Ms. Faye Wong (王菲) continues to act as the brand ambassador of Herborn to promote its brand image. The Group has been re-appointed as exclusive sponsor of skincare products to the Miss World Pageant China Finals in 2011. Apart from providing our Herborn Chinese herbal skincare products for the use of the contestants, we also conducted a series of skincare seminars for the contestants to allow them to understand the concepts and benefits of traditional Chinese medicine. As of 31 December 2011, the Group successfully set up sales and distribution networks comprising approximately 105 distributors and 15 KA retailers covering 27 provinces and four municipalities and 91 counters in department stores and/or hypermarkets. The number of counters in cosmetics specialty shops in the PRC substantially increased to approximately 3,000. In addition, the products have exclusively been sold at approximately 270 Mannings Chain Stores in Hong Kong since November 2010.

In relation to the Chinese herbal beverage product series — Bawang Herbal Tea, the Group continued to expand its sales and distribution network in 2011. As of 31 December 2011, the distribution network comprised approximately 491 distributors, covering 26 provinces and four municipalities.

The Group has retained Mercer Consulting Company as our advisor to enhance our business processes, and optimize the supply chain and human resource management since May 2011. The name of the project is known as "Project Stepping Stone". We have successfully realigned our organization structure in line with the value chain concept. Basically, the newly-established key positions have been filled up by newly-recruited professionals from internationally renowned companies specialized in fast moving consumer goods industry.

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

In terms of the recognition gained by the Group, on top of those honors and awards which have been mentioned in the Interim Report of 2011, we have further accomplished further honors and award in 2011.

In May 2011, the Group obtained an award for "Guangzhou Science Achievement Award" from the Bureau of Science and Information Technology of Guangzhou for an extraction method developed by the Group in Saponins from Eclipta Prostrata (墨旱蓮皂苷類化合物).

In August 2011, the Group obtained six patent certificates from the State Intellectual Property Office in relation to hair regrowing methodologies and techniques.

In December 2011, in recognition to the innovation and development of "Southern China Medication", the Guangdong Provincial Trade Association of Pharmacy accredited Madam Wan Yuhua as "Renowned Entrepreneur in Pharmaceutical Industry of Guangdong Province" and Bawang Guangzhou as "Enterprise with Significant Contribution to Pharmaceutical Industry of Guangdong Province", respectively.

Also in December 2011, Bawang brandname was elected as "The Most Competitive Brand in the Trendy Industry of China in 2011" by IT Times, sina.com, and the Guangdong Daily Used Chemical Association.

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

From time to time, we submit applications for registration of patents relating to research findings about the application of Chinese herbs for haircare, skincare and healthcare. The successful registration of which will prove to be a further testament to the recognition and breakthrough in our research and development efforts.

Recent Events

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

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue amounted to RMB888.9 million, representing a decrease of 39.7% as compared to RMB1,475.4 million in 2010. The decline in sales in 2011 was principally attributable to the substantial decline in the sales of the Group's two major shampoo products in 2011 as a result of and in connection with the "dioxane incident" as disclosed in the announcement of the Company dated 14 July 2010. But such sales decline was partially offset by the sales of the new Bawang Nutri-repairing product series for female customers and the increase in sales of three branded products, viz. Bawang Herbal Tea, Herbon and Litao.

The Group's core brand, Bawang, generated RMB418.0 million in revenue, which accounted for 47.0% of the Group's total revenue for 2011, and represented a decrease of 57.9% as compared to 2010. A closer look at revenue has revealed that Bawang branded products generated RMB271.2 million in revenue for the second half of 2011, representing an increase of 84.9% as compared to the first half of 2011.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind, recorded a revenue of RMB145.8 million in 2011, which accounted for approximately 16.4% of the Group's total revenue, and represented a decrease of 56.3% as compared to 2010. A closer look at revenue has revealed that Royal Wind branded products generated RMB61.0 million in revenue for the second half of 2011, representing a decrease of 28.0% as compared to the first half of 2011.

The original and enhanced natural-based branded shampoo and shower gel products series, Litao, generated RMB68.8 million in revenue, which accounted for approximately 7.8% of the Group's total revenue, and represented an increase of 34.8% as compared to 2010. As the enhanced product series of Litao branded products were rolled out in October 2010, the total revenue generated for 2010 and 2011 by this brand may not be directly comparable.

The first branded Chinese herbal drink of the Group, Bawang Herbal Tea recorded a revenue of RMB167.2 million in 2011, which represented approximately 18.8% of the Group's total revenue. As Bawang Herbal Tea branded products were launched in April 2010, the total revenue generated for 2010 and 2011 by this brand may not be directly comparable.

The branded Chinese herbal skincare series, Herborn, generated a revenue of RMB82.8 million, which accounted for approximately 9.3% of the Group's total revenue for 2011, and represented an increase of 279.2% as compared to 2010.

Smerry (雪美人) generated a total revenue of RMB6.3 million, which accounted for approximately 0.7% of the Group's total revenue for 2011.

We generally sell our products through extensive distribution and retail networks. During the year under review, sales to our distributors and retailers represented approximately 79.9% and approximately 20.1% of the Group's total revenue respectively.

We were also selling our products in Hong Kong, Macao, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia in 2011. The sales to these markets outside the PRC accounted for 2.5% of our total revenue for 2011.

Cost of Sales

Cost of sales for 2011 amounted to RMB544.2 million, representing a decrease of 3.5% as compared to RMB564.0 million for 2010. Such change was mainly due to the decrease in sales volume of two major shampoo products, but partially offset by the increase in sales volume of three branded products, namely Herborn, Litao and Bawang Herbal Tea branded products, and the provision of RMB43.9 million for write-down of inventories.

Gross Profit

During the year under review, the Group's gross profit decreased to RMB344.8 million, representing a decrease of 62.2% as compared to RMB911.3 million for 2010. The gross profit margin decreased from 61.8% for 2010 to 38.8% for 2011. Such decline was mainly due to the increase in the provision for write-down of inventories, the decrease in the sales of shampoo products to modern trade channel from which the profit margin is generally higher than that of the other channels, and the increased proportion of herbal tea products in the product mix as the profit margin of herbal tea is lower than that of HPC products.

Selling and Distribution Costs

Selling and distribution costs decreased to RMB872.3 million for 2011, representing an decrease of 7.4% as compared to that for 2010. This was mainly due to the decrease in advertising fee, and the saving achieved in promotion fee through optimizing the resources of promotion staff.

Administrative Expenses

Administrative expenses for 2011 amounted to approximately RMB102.5 million, representing a increase of approximately 0.9% as compared with approximately RMB101.5 million in 2010. This was mainly due to the increase in salary and meeting expenses and recruitment fee, but partially offset by the decrease in non-capitalizable research and development expenditures and option share-based payments.

Loss from Operations

The Group recorded an operating loss of RMB625.3 million for 2011, as compared to the operating loss of RMB131.6 million for 2010. The Group's operating margin decreased from -8.9% for 2010 to -70.3% for 2011. The decrease was mainly due to the substantial decrease in total revenues and the increase in the proportion of costs of sales over the revenue, but partially offset by the decrease in selling and distribution costs.

Income Tax

The Company had an income tax credit of RMB60.0 million for 2011 as compared to income tax credit of RMB16.2 million for 2010.

Provision for Inventories

Our accounting policy prescribes that inventories are stated at the lower of cost and net realizable value ("NRV"). In the event that NRV falls below cost, the difference is taken as provision for inventories. As at 31 December 2011, the amount of provision for write-down of inventories was RMB54.7 million (31 December 2010: RMB10.8 million). The Group recognised a loss of approximately RMB43.9 million for the year ended 31 December 2011 in respect of the write-down of inventories to their net realisable value, which have been included in cost of sales as mentioned above.

Loss for the Year Attributable to the Equity Shareholder

As a combined effect of the above, the Group recorded an attributable loss of RMB558.6 million for 2011, as compared to the attributable loss of RMB118.0 million for 2010.

SUBSEQUENT EVENTS

On 7 February 2012, the Company granted an aggregate of 1,500,000 share options ("Options") to a full-time employee of the Group to subscribe for an aggregate of 1,500,000 ordinary shares of HK$0.10 each in the capital of the Company ("Shares") under its share option scheme ("Scheme") adopted on 20 May 2009. The employee is not a Director of the Company. The Option shall entitle its holder to subscribe for an aggregate of 1,500,000 Shares upon exercise of such Options at an exercise price of HK$1.00 per share. The Options granted are exercisable in five equal tranches of 20% each per annum. Subject to the terms of the Scheme, the first tranche shall be exercisable anytime after the first anniversary of the employee joining the Group. The remaining four tranches shall be exercisable anytime after the next four successive anniversaries.

OUTLOOK

The year 2012 is the second year of the 12th Five-year Plan for National Economic and Social Development of China, policies will likely continue to be centered on prudent monetary policy and a proactive fiscal policy with an emphasis on the quality rather than quantity of growth. The central government of the PRC has announced a business tax reform to support the development of the PRC service industries. More preferential taxation treatment is expected for emerging strategic industries. Additional fiscal spending in public housing, education, healthcare and social security system will likely also be approved.

Notwithstanding there are two downside risks to the PRC economic growth, viz. the European sovereign debt crisis and the property tightening measures, the Directors remain positive about the fundamental growth drivers for consumption in the PRC. Acceleration in income growth, particularly for mass consumers, should stimulate their desire to improve the quality of life and to look for a natural and healthy lifestyle. The Company should be able to help these consumers by offering herbal and natural base household and personal care products.

In 2012, the Group aims to transcend itself into a new horizon through efficient and effective operations so as to achieve a win-win situation between itself and the retailer and distributors. We outline our business plans and strategies for 2012.

For Bawang branded products, leveraging on our core competence in traditional Chinese medicine, we market the theme "Natural and Healthy Way for Hair Regrowing (中藥養發，天然健康)" by pinpointing the differentiation between our products and those of our competitors. We target to maintain our leadership position in the Chinese herbal shampoo market in the PRC; to further increase the revenue through extensive coverage of our sales and distribution network; to enhance the skills and knowledge of our sales and marketing team through inhouse training and development programs; to enhance the coverage and expansion of traditional channel so as to increase the same distributor sales; and to expand the revenue stream through the launch of enhanced product series similar to modern trade channel with emphasis on after-shampoo hair-caing and new product series directed at female customers. To achieve these objectives, we are going to replicate a similar model for operations and expansion of the traditional channel which we have adopted for modern trade channel since second half of 2011; and to make use of the expertise and experience of the newly-recruited marketing elites for strategic planning and executions. To ensure a smooth expansion of the traditional trade channel, our newly-established trade marketing department will make use of various management systems for monitoring the channel expenses and the promotional campaigns at the point of sales. To achieve a win-win situation with our distributors, we will offer training and development programs to our distributors, with a view to enhancing management skills for attainment of sales targets and hence increase sales revenue.

For the Royal Wind Chinese herbal anti-dandruff shampoo series, we successfully launched the enhanced version of the branded products in the second half of 2011. Leveraging on the modern trade channel and distributor system, we will continue to deepen the penetration of the marketing channel this year, to roll out enhanced products with new packaging design and improved formulae which appeal to young customers and to expand the assortment of products that are available at the points of sales so as to increase sales revenue and market share. Our target is to expand the distribution network for Royal Wind brand so that the market coverage can be on the same level as the Bawang brand. We will continue to strengthen its brand image. We strive to build up this brand as another leading Chinese herbal shampoo within the next few years.

For the Herborn Chinese herbal skincare products series, we will continue to enhance its brand image and brand recognition through investing in advertising and marketing campaign and setting up more counters in department stores, hypermarket and dedicated shops. Like Bawang branded products, we have established a team of elite marketing professionals for development and operations of the skincare products business. Our target is to set up around another 2,000 counters through our distributors in cosmetics specialty shops on a nationwide basis in the PRC, with an aim to making a total of 5,000 counters by the end of 2012. We reinforce our belief that Herborn would become a leading brand in the Chinese herbal skincare market as well as one of our key revenue contributors in the next few years.

For Bawang Herbal Tea, we have adopted a prudent approach for developing the business. We are changing the business model whereby instead of developing and expanding the sales network entirely by the Group's investment, we outsource the herbal tea operations to selected distributors in designated areas and channels. The Group remains responsible for overall brand building strategy, marketing and promotion campaigns for Bawang Herbal Tea. The Directors believe that such model would help the Group minimize the risk of over-investment when the operating performance is not in line with our expectation. The breakeven point of the profit and loss of the business will become lower. To enhance the revenue base from this business segment, the Group is currently exploring the possibility of launching herbal health drinks in future.

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

The Group will continue with its plan to lease a new production premises located in Baiyun District, Guangzhou with an estimated site area of 75,000 square meters. Installations of the automated production facilities for phase one have been completed. We are in the final stage of fine-tuning the production lines. The designs of the plants have been based on the good manufacturing practices (GMP) guidelines. The Directors believe that the adoption of internationally recognized management guidelines will certainly further enhance the consumers' confident in the Group's determination to maintain an uncompromising quality of our products. Productions may commence around mid-2012. We estimate that the aggregate annual production capacity for shampoo products, hair-care products, and skincare products is approximately 100,000 metric tons upon commencement of production.

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

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

In terms of our development plan in overseas markets, the Group will continue to explore the possibility with potential distributors for launching our branded products to other countries. Bawang shampoo and haircare products may be rolled out in Vietnam and Indonesia later this year. The Group is open to explore all further business opportunities with potential overseas distributors.

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

The Group's Project Stepping Stone for enhancing its organizational efficiency and effectiveness has been in progress and we will continue to review the progress of the organizational change project. The Directors believe that with the help of the high calibre management team, the Group is on track to transcend into a new horizon.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

	31 December 2011 *RMB in million*	31 December 2010 *RMB in million*
Cash and cash equivalent	**602.7**	1,186.5
Total bank and other borrowings[1]	**Nil**	209.8
Total assets	**1,246.1**	2,033.4
The gearing ratio[2]	**Nil**	10.3%

Note:

1. The borrowings were wholly denominated in US Dollars.
2. Calculate as interest-bearing borrowings divided by total assets

MATERIAL ACQUISITION AND DISPOSAL

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. During the year 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 Directors are of the view that the Group conducts its business transactions principally in Renminbi and thus the exchange risk at the Group's operational level is not significant. As at 31 December 2011, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes. However, the Directors will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when required.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2011.

CAPITAL COMMITMENT

As at 31 December 2011, the capital commitment of the Group was amounted to RMB57.0 million.

HUMAN RESOURCES

As of 31 December 2011, the Group employed approximately 9,784 employees (including staff members and contract personnel) in the PRC and Hong Kong. Total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to RMB269.6 million for 2011.

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

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

To enable our employees to develop their full potential, we are committed to staff training and development. In 2011, the Group organized 13 in-house training classes with approximately 322 participants in aggregate.

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

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

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted and complied with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year under review.

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 year under review.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with the Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee, amongst others, are to review the financial reporting process and internal control system of the Group and to provide advice and suggestions to the Board. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2011 with the management of the Company and the Company's independent auditors and recommended its adoption by the Board.

DIVIDENDS

The Board does not recommend the payment of any final dividends in respect of the year ended 31 December 2011.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 30 May 2012 to Friday, 1 June 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 29 May 2012.

The annual general meeting of the Company will be held in Hong Kong on Friday, 1 June 2012. A notice of the annual general meeting will be published and despatched to shareholders in accordance with the requirement of the Listing Rules.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and the Stock Exchange (www.hkex.com.hk). The annual report for the ended of 31 December 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 17 March 2012

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