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
FOR THE SIX MONTHS ENDED 30 JUNE 2013

The Board refers to the profit warning announcement of the Group dated 26 August 2013. The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2013:

Total revenue of the continuing operations of the Group was approximately RMB240.7 million, representing a decrease of 11.7% from approximately RMB272.6 million for the same period of 2012.

Operating loss from the continuing operations of the Group was approximately RMB83.3 million, representing a decrease of 55.4% from approximately RMB186.8 million for the same period of 2012.

Net loss from the continuing operations was approximately RMB84.0 million as compared with a net loss approximately RMB269.4 million for the same period of 2012.

Loss attributable to owners of the Company was approximately RMB86.0 million as compared with the attributable loss of approximately RMB326.9 million for the same period of 2012.

Loss per share from continuing operations (Basic and diluted) was RMB0.029.

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

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 2013 together with comparative figures for the same period in 2012.

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	NOTES	Six months ended 30 June **2013** *RMB'000* **(Unaudited)**	2012 *RMB'000* (Unaudited and restated)
Continuing operations			
Turnover	3	**240,745**	272,593
Cost of sales		**(120,131)**	(126,072)
Gross profit		**120,614**	146,521
Other income		**1,792**	844
Changes in fair value less costs to sell of biological assets		**(510)**	(558)
Selling and distribution costs		**(158,766)**	(284,263)
Administrative expenses		**(46,244)**	(47,711)
Other expense		**(226)**	(1,602)
Finance costs	4	**(653)**	—
Loss before taxation	5	**(83,993)**	(186,769)
Income tax expense	6	**—**	(82,605)
Loss for the period from continuing operations		**(83,993)**	(269,374)
Discontinued operation			
Loss for the period from discontinued operation	7	**(2,019)**	(57,574)
Loss for the period attributable to owners of the Company		**(86,012)**	(326,948)
Other comprehensive income (expense):			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**11,050**	(4,308)
Other comprehensive income (expense) for the period		**11,050**	(4,308)
Total comprehensive expense for the period attributable to owners of the Company		**(74,962)**	(331,256)

		Six months ended 30 June	
	NOTES	**2013**	2012
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited and restated)
Loss per share	9		
From continuing and discontinued operations			
Basic and diluted (RMB)		(0.030)	(0.112)
From continuing operations			
Basic and diluted (RMB)		(0.029)	(0.092)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	NOTES	**30 June 2013** **RMB'000** **(Unaudited)**	31 December 2012 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**317,439**	321,619
Prepaid advertising fee		**308**	1,454
Biological assets		**113**	142
		317,860	323,215
Current assets			
Inventories		**73,003**	64,801
Biological assets		**1,407**	1,836
Trade and other receivables	10	**94,604**	138,161
Amounts due from related parties		**2,386**	—
Bank balances and cash		**91,440**	224,608
		262,840	429,406
Current liabilities			
Trade and other payables	11	**228,359**	247,785
Bank loans		**2,315**	76,390
Amounts due to related parties		**—**	4,090
Income tax payables		**9,651**	9,656
		240,325	337,921
Net current assets		**22,515**	91,485
Total assets less current liabilities		**340,375**	414,700
Non-current liabilities			
Deferred tax liabilities		**2,031**	2,031
Net assets		**338,344**	412,669
Capital and Reserves			
Share capital		**256,639**	256,639
Reserves		**81,705**	156,030
Total equity		**338,344**	412,669

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

BaWang International (Group) Holding Limited (the "Company") was incorporated in the Cayman Islands on 11 December 2007 as an exempted company with limited liability. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and sales of household and personal care products. The Group is also engaged in the sales of herbal tea products.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group incurred a net loss of approximately RMB86,012,000 and reported a net cash outflow from operating activities of approximately RMB50,609,000 for the six months ended 30 June 2013, and had cumulative losses of approximately RMB1,329,420,000 as at 30 June 2013. In view of such circumstance, 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 RMB91,440,000 and net current assets of approximately RMB22,515,000 as at 30 June 2013. In order to strengthen the Group's capital base and liquidity in the foreseeable future, the controlling shareholders of the Group and Guangzhou Bawang Cosmetics Co., Ltd. ("Guangzhou Bawang"), an entity wholly-owned by the controlling shareholders, have undertaken to provide a long-term loan facility to the Group in an amount up to RMB140,000,000 for a period from 15 March 2013 to 31 December 2015.

(ii) The directors of the Company have been taking measures to optimise the Group's operations and improve the cost structure, which include the following:

- adopting measures to expand the revenue stream through the launch of enhanced or new products series and promotion of certain existing product lines of higher margin; and

- adopting various cost control measures to tighten the costs of operations and various general and administrative expenses, including but not limited to adopting more cost-effective advertising and promotion channels and reducing the staff headcounts.

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, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised to International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle
Amendments to IFRS 1	First-time Adoption of IFRSs – Government Loans
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
International Financial Reporting Interpretations Committee – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

The Group has not applied any new or revised IFRSs that is not yet effective for the current interim period.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than described above, the application of the above new or revised to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

Turnover 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.

As a result of the unsatisfactory financial performance of the business of the herbal tea products, the Board decided to discontinue the production and sales of its herbal tea products with effect from 1 July 2013. Accordingly, herbal tea products segment is presented as discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sales and Discontinued Operations. Details of the discontinued herbal tea products operation are set out in note 7.

The Group's continuing operations comprise the following three reportable and operating segments:

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

The Group's senior executive management is provided with the segment information concerning segment revenue and segment loss. Segment assets and liabilities are not reported to the Group's senior executive management regularly. The following is an analysis of the Group's revenue and results by reportable and operating segments:

For six months ended 30 June 2013

Continuing operations

	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	**194,301**	**19,941**	**26,503**	**240,745**
Segment losses	**(61,144)**	**(5,640)**	**(3,672)**	**(70,456)**
Other income				**1,792**
Other expense				**(226)**
Change in fair value less costs to sell of biological assets				**(510)**
Central administration costs				**(13,940)**
Finance costs				**(653)**
Loss before taxation from continuing operations				**(83,993)**

For six months ended 30 June 2012

Continuing operations

	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 and restated)
Revenue from external customers	221,238	31,908	19,447	272,593
Segment losses	(155,388)	(13,636)	(4,252)	(173,276)
Other income				844
Other expense				(1,602)
Change in fair value less costs to sell of biological assets				(558)
Central administration costs				(12,177)
Loss before taxation from continuing operations				(186,769)

4. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Continuing operations		
Borrowing costs on secured bank loans wholly repayable within one year	**653**	—

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Continuing operations		
Depreciation	**13,153**	8,971
Net (gain) loss on disposals of property, plant and equipment	**(391)**	28
Write-down of inventories (included in cost of sales)	**1,465**	24,363
Reversal of write-down of inventories (included in cost of sales)	**(16,855)**	(49,676)
Write-off of inventories (included in cost of sales)	**8,222**	—
Impairment loss on trade receivables	**—**	2,994
Redundancy costs	**7,252**	1,133
Reversal of impairment loss on trade receivables	**(129)**	—
Bank interest income	**(639)**	(704)
Net exchange loss (gain)	**7,043**	(115)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Continuing operations		
Deferred tax – Reversal of temporary differences	**—**	82,605

(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) Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods, except for the following subsidiary.

Bawang (Guangzhou) Co., Ltd. ("Bawang Guangzhou"), a PRC subsidiary of the Group, is subject to a unified income tax rate of 25%. 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%. The qualification of Bawang Guangzhou as a HNTE was approved in 2009 and renewed in 2012. The qualification was valid for three years from 2012 to 2014. Therefore, Bawang Guangzhou was entitled to a preferential income tax rate of 15% in 2013 and 2012.

No provision for the EIT has been made for the six months ended 30 June 2013 and 2012 as the PRC subsidiaries have no assessable profits arising in the PRC.

(iii) No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2013 and 2012 as the Group has no assessable profits arising in Hong Kong.

7. DISCONTINUED OPERATION

As a result of the unsatisfactory financial performance of the business of the herbal tea products, the Board decided to discontinue the production and sales of its herbal tea products with effect from 1 July 2013. Accordingly, herbal tea products segment is presented as discontinued operation.

The results of the discontinued herbal tea products operation for the six months ended 30 June 2013 and 2012 are as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Turnover	**794**	16,108
Cost of sales	**(1,521)**	(36,453)
Other income	**2**	74
Selling and distribution costs	**(754)**	(36,727)
Administrative expenses	**(246)**	(560)
Other expense	**(294)**	(16)
Loss before taxation	**(2,019)**	(57,574)
Income tax expense	**—**	—
Loss for the period	**(2,019)**	(57,574)

The loss for the period from discontinued herbal tea products operation includes the following:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation	**190**	202
Bank interest income	**(2)**	(63)
Write-down of inventories (included in cost of sales)	**—**	20,453
Write-off of inventories (included in cost of sales)	**335**	—
Reversal of write-down of inventories (included in cost of sales)	**—**	(5,034)
Net loss on disposals of property, plant and equipment	**11**	—

Net cash (outflows) inflows on discontinued herbal tea products operation are as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating activities	(274)	(21,134)
Investing activities	5	(43)
	(269)	(21,177)

8. 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 2013 (six months ended 30 June 2012: nil).

9. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the loss for the period from continuing and discontinued operations of approximately RMB86,012,000 (six months ended 30 June 2012: approximately RMB326,948,000) and the weighted average number of approximately 2,910,971,000 (six months ended 30 June 2012: approximately 2,909,396,000) ordinary shares in issue during the period.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the loss for the period from continuing operations of approximately RMB83,993,000 (six months ended 30 June 2012: approximately RMB269,374,000) and the weighted average number of approximately 2,910,971,000 (six months ended 30 June 2012: approximately 2,909,396,000) ordinary shares in issue during the period.

From discontinued operation

Basic and diluted loss per share for the discontinued operation attributable to the owners of the Company is RMB0.001 per share for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB0.020 per share), based on the loss for the period from the discontinued operation of approximately RMB2,019,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: approximately RMB57,574,000) and the denominators detailed above for both basic and diluted loss per share.

For the six months ended 30 June 2013 and 2012, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the six months ended 30 June 2013 and 2012 did not assume the exercise of the Company's share options as the effect is anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

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

The following is an analysis of trade and bills receivables, net of impairment, presented based on the due date at the end of the reporting period:

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Current	**38,586**	59,404
Less than 3 months past due	**28,784**	29,308
4–6 months past due	**9,037**	7,072
7–12 months past due	**2,760**	3,858
More than 12 months past due	**2,506**	2,629
	81,673	102,271
Less: allowance for doubtful debts	**(7,228)**	(7,357)
	74,445	94,914

11. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the due date.

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Due within 1 month or on demand	**54,877**	51,911
Due after 1 month but within 3 months	**9,856**	7,827
	64,733	59,738

12. COMMITMENTS

Capital commitments for acquisition of property, plant and equipment outstanding at the end of reporting periods not provided for in the condensed consolidated financial statements were as follows:

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Contracted for	**21,182**	30,050

13. COMPARATIVE FIGURES

The presentation of comparative information in respect of the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2012 has been restated in order to disclose the discontinued operation separately from continuing operations.

Business Review

The Board reports that the total revenue of the continuing business of the Group for the six month ended 30 June 2013 was approximately RMB240.7 million, representing a decrease of 11.7% from approximately RMB272.6 million for the same period of 2012. The operating loss from the continuing operations of the Group for the six months ended 30 June 2013 was approximately RMB83.3 million, representing a decrease of 55.4% from approximately RMB186.8 million for the same period of 2012. For the six months ended 30 June 2013, the net loss from the continuing operations of the Group was approximately RMB84.0 million, as compared with the net loss of approximately RMB269.4 million for the same period of 2012. Detailed information on the operating performance of the Group is set forth in the section headed "Financial Review" of this announcement.

During the period under review, the Group adopted cost control measures, along with sales growth operating strategy. Amid the slowdown in the macro-economic recovery in the first quarter of 2013, the Board made a swift decision to optimise the workforce and streamline the operations further. The continuous implementation of the value-chain-oriented business model known as "Project Win-win (共贏項目)" and the newly-implemented performance-based rewards system known as "Job Target and Responsibility Statement (工作目標和職責責任書)", together with the enhancement of operational efficiency and effectiveness as a result of the Sales Automation Management System (SAMS), the Group was able to reduce the operating costs, resulting in a decrease in loss from the continuing operations for the period under review as compared with the same period of last year.

The Group always strives to expand the sales channels and increase the revenue streams of Bawang branded products. In late June 2013, the Group launched a brand new high-end herbal shampoo series, namely, Bawang Cardamom Essence Shampoo series (霸王豆蔻精華洗髮水) for ladies, which help relieving the problems of hair-falling, grey hair, dry hair and dandruff of female users. This series of products are distributed and sold through the cosmetics speciality shop channel. Additionally, the Group also enhanced the functionalities of Chinese Herbal Essence Shampoo series (中草藥精華洗髮水), one of the existing products series. Both Mr. Jackie Chan and Miss Kim Hui Seon continue to be the brand ambassadors during the period under review.

As of 30 June 2013, the Bawang brand distribution network comprised approximately 505 distributors and 46 KA retailers, covering 27 provinces and four municipalities. Furthermore, the products of the Group are sold in Hong Kong, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia. The Group targets to expand its distribution network to Vietnam and Indonesia later this year.

During the period under review, the Group continued to promote the rebranded image of Royal Wind with the main theme "Youthful & Trendy Way to Eliminate Dandruff by Traditional Chinese Medicine (中藥去屑，年輕時尚)" with two main products under the Royal Wind shampoo series, namely, Royal Wind Anti-hair Fall Shampoo and Royal Wind Hydra-fresh Shampoo. Mr. Han Geng continues to be the brand ambassador during the period under review.

As of 30 June 2013, the Royal Wind brand distribution network comprised approximately 464 distributors and 45 KA retailers, covering 27 provinces and four municipalities.

The Litao (麗濤) products mainly comprise shower gels targeting consumers living in the second-tier or third-tier cities in China, as part of the Company's goal to increase the market presence in China. As of 30 June 2013, the Litao products distribution network comprised approximately 396 distributors covering 27 provinces and four municipalities.

The Group's Herborn Chinese herbal skincare products (本草堂系列) target white-collar females in the age range of 25 to 45 who have relatively high net income and are dedicated to pursue a healthy and natural lifestyle. The Group has been appointed for the fourth time as the exclusive sponsor of skincare products to the Miss World Pageant in 2013, China. Apart from providing our Herborn Chinese herbal skincare products to the contestants, we also provided a series of skincare seminars for the contestants, so as to allow them to understand the concepts and benefits of using traditional Chinese medicine for skin-care. In terms of sales channels, the Group is now selling the products mainly through cosmetics specialty shops throughout China.

As of 30 June 2013, the sales and distribution network for the Herborn Chinese herbal skincare products is comprised of approximately 93 distributors and eight KA retailers covering 27 provinces and four municipalities and also 11 counters in department stores and/or hypermarkets. The Group also had more than 3,000 counters in cosmetics specialty shops in China.

During the period under review, we continued to sell our natural plant skincare products series, Smerry (雪美人) which target young female customers in the age range of 18 to 28 who are dedicated to pursue a natural and healthy lifestyle. Miss Jing Tian (景甜), a popular artist among the younger generation, continues to be the brand ambassador during the period under review. With her positive image, we believe that she will successfully portray the natural plant essence brand positioning of Smerry thereby enhancing its brand awareness and recognition.

The Board decided to discontinue the business operations of Bawang Herbal Tea (霸王涼茶), the Group's herbal tea product series, with effect from 1 July 2013. The discontinuance of this business is due to the continuous decrease in its sales over the past few years. The Group is in the course of following up the matters after the discontinuance of this business. Save as disclosed above, there have been no material changes in the business of the Group since the publication of the Company's annual report for the year ended 31 December 2012.

In a presentation ceremony for the 17th National Top Selling and Leading Brand Awards held by the Chinese Industrial Information Issuing Centre of the National Bureau of Statistics of China, Bawang branded product was honored as the No.1 Chinese Herbal Shampoo on China in 2012. Furthermore, according to the research reports issued by Euromonitor, in terms of sales value, Bawang continues to rank the first in the Chinese herbal shampoo for a consecutive period of seven years since 2007. During the period under review, we obtained awards and recognitions as below:

— A number of Bawang branded products were recognised by the China Quality Assurance Council as "A Certified Product with Stable Quality in China (全國質量檢驗穩定合格產品) " in March 2013.

— Bawang Guangzhou was recognised by the China Quality Control Association as "A Reliable Quality and Committed Enterprise of China (全國質量誠信承諾優秀企業)" in March 2013.

— Bawang Guangzhou has been admitted as a member of the Beijing British Commonwealth Society (北京英聯邦協會會員) since May 2013 and Bawang shampoo has been designated as the exclusive hair-care product of the society.

The Board believes that these achievements were recognitions of the Group's continuous effort in research, development and industrialization of Chinese herbal medicine.

From time to time, we make applications for registration of patents relating to our research findings on the application of Chinese herbs in the haircare, skincare and healthcare products. The successful registration of which is a further recognition for our continuous dedication to research and development.

Litigation

The Board considers that the contents of the relevant article published by Next Magazine on 14 July 2010 are defamatory to the Group and/or amount to malicious falsehood. Therefore, we commenced legal proceedings in the High Court of Hong Kong in October 2010 against Next Magazine seeking, inter alia, damages and an injunction to restrain Next Magazine from publishing such contents or similar contents. As of the date of this announcement, the legal proceedings are in progress.

Financial Review

Continued Business

Revenue

During the six months ended 30 June 2013, the Group's revenue of the continued business amounted to approximately RMB240.7 million, representing a decrease of 11.7% from approximately RMB272.6 million during the same period of 2012. The decrease was primarily attributable to the slowdown of the economy in China. Although the Group has implemented the Project Excel since the second half of 2012 whereby the Group had been optimising the size of its workforce and streamlining its business operations, the Board believes that it takes time to see the positive financial effects of this cost-saving project.

During the six months ended 30 June 2013, the Group's core brand, Bawang, generated a revenue of approximately RMB153.0 million, which accounted for approximately 63.5% of the Group's total revenue, and represented an decrease of 3.8%, as compared with the same period of 2012.

During the six months ended 30 June 2013, the Group's branded Chinese herbal anti-dandruff hair-care series, Royal Wind, recorded a revenue of approximately RMB46.7 million, which accounted for approximately 19.5% of the Group's total revenue, and represented a decrease of approximately 26.9%, as compared with the same period of 2012.

During the six months ended 30 June 2013, the Group's branded Chinese herbal skincare series, Herborn, recorded a revenue of approximately RMB19.0 million, which accounted for approximately 7.9% of the Group's total revenue, and represented a decrease of approximately 34.3%, as compared when the same period of 2012.

During the six months ended 30 June 2013, the Group's nature-based branded shampoo and shower gel products series, Litao, generated a revenue of approximately RMB21.2 million, which accounted for approximately 8.8% of the Group's total revenue, and represented an increase of approximately 19.2%, as compared with the same period of 2012.

During the six months ended 30 June 2013, Smerry generated a revenue of approximately RMB0.8 million, which accounted for approximately 0.3% of the Group's total revenue.

We sell our products through extensive distribution and retail networks. During the six months ended 30 June 2013, sales to our distributors and retailers represented approximately 73.6% and approximately 26.4% respectively of the Group's total revenue.

During the six months ended 30 June 2013, our products were also sold in Hong Kong, Singapore, Myanmar, Thailand and Malaysia, Brunei, and Australia. The sales to these overseas markets outside China accounted for approximately 4.5% of our total revenue during the six months ended 30 June 2013.

Cost of Sales

During the six months ended 30 June 2013, cost of sales amounted to approximately RMB120.1 million, representing a decrease of approximately 4.7% from approximately RMB126.1 million during the same period of 2012. Such decrease was primarily due to a decrease in raw materials consumed, partially offset by the increase in the cost of package materials.

Gross Profit

During the six months ended 30 June 2013, the Group's gross profit decreased to approximately RMB120.6 million, representing a decrease of approximately 17.7% from RMB146.5 million in the same period of 2012. The gross profit margin for the six months ended 30 June also decreased from approximately 53.8% in 2012 to approximately 50.1% in 2013. The decrease in the gross profit margin was mainly attributable to the increase in the disposal of inventory and the increase in depreciation following the purchase of new machinery and equipment for the new production complex.

Selling and Distribution Costs

During the six months ended 30 June 2013, selling and distribution costs decreased to approximately RMB158.8 million, representing a decrease of approximately 44.1% as compared with the same period of 2012. Such decrease was primarily due to the decrease in advertising fees, the decrease in sales staff salary and the decrease in the promotion fee following the optimisation of our promotion staff resources.

Administrative Expenses

During the six months ended 30 June 2013, administrative expenses amounted to approximately RMB46.2 million, representing a decrease of approximately 3.1% from approximately RMB47.7 million in the same period of 2012. Such decrease was primarily due to the decrease in staff salary, the decrease in research and development expenditures and the decrease in litigation expenses partially offset by the one-off redundancy payment to the outgoing staff members.

Loss from Operations

The Group recorded an operating loss from its continued business of RMB83.3 million for the six months ended 30 June 2013, as compared with the operating loss of RMB186.8 million for the same period of 2012. The Group's operating margin for the six months ended 30 June improved from -68.5% in 2012 to -34.6% in 2013. The improvement was primarily due to the substantial decrease in selling and distribution expenses.

Finance Income and Costs

For the six months ended 30 June 2013, finance income of the Group amounted to approximately RMB0.6 million as compared with the finance income of approximately RMB0.8 millions for the same period of 2012. The decrease was primarily due to the decrease in bank balances.

For the six months ended 30 June 2013, the Group incurred finance costs amounted to approximately RMB0.7 million on bank loans during the six months ended 30 June 2013. The Group did not incur any interest on bank loans during the same period in 2012.

Income Tax

During the six months ended 30 June 2013, the Group did not have any income tax expense and/ or reversal as compared with an income tax expense of approximately RMB82.6 million during the same period in 2012.

Provision for Inventories

Our accounting policy prescribes that inventories are stated at the lower of cost and net realizable value ("**NRV**"). In the event that NRV falls below cost, the difference is taken as provision for inventories. During the six months ended 30 June 2013, the amount of write-down of inventories and reversal of write-down of inventories were amounted to approximately RMB1.5 million and approximately RMB16.9 million (six months ended 30 June 2012: approximately RMB44.8 million and approximately RMB54.7 million) respectively.

Loss for the Period from Continuing Operations

As a result of the combined effect of the abovementioned factors, the Group recorded loss of RMB84.0 million for six months ended 30 June 2013, as compared with the loss of RMB269.4 million for the six months ended 30 June 2012.

Discontinued Business

During the six months ended 30 June 2013, the revenue attributable to the Group's herbal tea products was amounted to RMB0.8 million and this business segment recorded an operating loss of RMB2.0 million. As a result of the unsatisfactory financial performance of the business of the herbal tea products, the Board decided to discontinue the production and sales of its herbal tea products with effect from 1 July 2013. Since then, the Group is able to focus on the business development of the hair-care and skin-care products.

Loss for the Period Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded an attributable loss of RMB86.0 million for the six months ended 30 June 2013, as compared with the attributable loss of RMB326.9 million for the six months ended 30 June 2012.

BUSINESS OUTLOOK

Although the Chinese economy remains relatively stable, the Directors believe that it would not grow at such relatively fast pace as what it did during the last decade. During the six months ended 30 June 2013, the growth rate of the gross domestic product, GDP, in China was 7.6%. The consumers' sentiment in China was not satisfactory during the same period. There were various factors, such as high labour cost, labour shortage, strong currency value, and continuous inflationary environment, affecting the competitiveness of the Chinese economy. The recent decline in the export also demonstrates that the Chinese economy, which is an export-driven economy, may only grow modestly in the near future.

During the period of change from investment-driven economy to a balanced economy driven by domestic consumption, the Chinese economy encounters uncertainties and challenges. The government in China has adopted various measures to stimulate the continuous and sustainable economic growth and development. Nevertheless, people in China prefers to increase their saving, but not on aggressive consumption. As a result, the retail market in China is not growing as rapidly as expected. Amid this operating environment, the Group adopts a prudent approach in its business development.

In order to strengthen the confidence of our customers on the Group's products, the Group intends to promote the brand of Bawang along the central theme that the Group continues to rank the first in the Chinese herbal shampoo products for a consecutive period of seven years. The Group also emphasise the trenchancy in the production process through arrangement of regular visits to the production complex by government officials, media, and selected groups of consumers. The purposes of these campaigns are to enhance the corporate image and the brand recognition of the products of the Group. The image of the Group's chief executive officer is also important to the Group, and the Group will continue the sentiment marketing and promotional campaign with the theme of "Shampooing for your love (為愛洗一次頭)".

For the two branded shampoo and hair-care products, namely, Bawang and Royal Wind, the Bawang brand products target the mature customers and the Royal Wind brand products are designed for the young consumers. Though each of branded products has respective functionalities of its own and each of them targets different market segment, both of them are leveraging the Group's peculiar background that the Group's business is developed from a renowned traditional Chinese medicine family with its core competence in making Chinese herbal-based hair-care products. We will continue these promotional and marketing campaigns and are prepared to launch new products as and when we consider appropriate.

On the high-end product business, the Group will continue to build up the high-end brand image for our Herborn Imperial series skincare products. These products are the signature products with distinctive packaging and uncompromised quality. The Group targets to promote these products with the objective to increase the revenue contribution from the sales of the Herborn Imperial series skincare products at selected sales channels, such as cosmetics and skincare product retail stores, and internet sales.

In July 2013, the Group launched a variety of natural-based healthy household and personal care products through our traditional trade channel, including Litao shampoo, Litao laundry detergents, Dr. Gao hand wash liquid, and Bawang toothpaste. These products target consumers living in the second-tier or third-tier cities in China. As these products are principally sold through traditional sales channels, the Group does not need to incur significant selling and distribution costs.

As part of the business expansion plan, the Group will continue to explore the possibility with potential distributors for launching our branded products to other countries. The Group is open to explore further business opportunities with potential overseas distributors.

As of the date of this announcement, the Group does not have any outstanding acquisition opportunity in hand, nor explore actively business opportunities that may involve potential acquisition.

Looking forward, the strategic directions to sustain and develop our business in the midst of the volatile internal and external operating environments are two folds. In the short run, the Group has the following goals, namely, to continue building up a management team with strong experience in both domestic and global HPC sectors, to regain sales growth and profitability, and to improve investors' confidence in the Group. In the long run, the Group will continue to focus on strengthening the business model and positioning to increase the market share from domestic and international competitors, maintaining a multi-brand and multi-product strategy in HPC sectors, and becoming a global leader in the branded Chinese herbal HPC products.

Liquidity, Financial Resources and Capital Structure

The Group adopts conservative financial management policies. A summary of liquidity and financial resources is set out below:

	30 June 2013 *RMB in million*	31 December 2012 *RMB in million*
Cash and cash equivalents	**91.4**	224.6
Total bank and other borrowings	**2.3**	76.4
Total assets	**580.7**	752.6
Gearing ratio [Note]	**0.4%**	10.2%

Note: Calculated as interest-bearing borrowings divided by total assets.

Material Acquisition and Disposal

As of 30 June 2013, the Group has no specific acquisition target.

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

Exposure to Fluctuations in Exchange Rates and Related Hedge

The operations of the Group are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group has exported its goods to Hong Kong and certain Southeast Asian countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are mostly denominated in Renminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared. In addition, the Group paid certain advertising fees in United States Dollars or Hong Kong Dollars.

The Board is 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 of 30 June 2013, 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

A lawsuit (the "**Lawsuit**") had been filed by a distributor against Bawang Guangzhou in Guangzhou Baiyun District Law Court whereby the distributor alleged that Bawang Guangzhou is liable to pay an outstanding reimbursement for promotion fees of approximately RMB6.4 million pursuant to an agreement entered into between it and Bawang Guangzhou on 12 April 2010. On 5 September 2012, a court session was held by Guangzhou Baiyun District Law Court regarding the Lawsuit.

The PRC legal counsel to the Group in the Lawsuit is of the view that the Lawsuit is not likely to have adverse effect on Bawang Guangzhou. As of the date of this announcement, the Lawsuit is still in progress.

Given the current status of the Lawsuit, the Group is not in the position to predict the outcome of the Lawsuit. Nor the Group is able to predict the amount of the loss that may be incurred by the Group. As such, no provision has been made by the Group as of 30 June 2013 in respect of the Lawsuit.

Capital Commitment

As of 30 June 2013, the capital commitment for acquisition of properly, plant and equipment of the Group was approximately RMB21.2 million.

Pledge of Assets

As at 30 June 2013, the Group had pledged machinery and equipment of approximately RMB79.0 million (31 December 2012: approximately RMB75.4 million) and trade receivables of approximately RMB2.8 million (31 December 2012: approximately RMB85.1 million) for bank loans.

Human Resources

As of 30 June 2013, the Group employed approximately 3,390 employees (30 June 2012: 8,256), consisting of full-time employees and contract personnel in the PRC and Hong Kong. Of which, the Group also engaged approximately 1,872 salespersons (30 June 2012: 5,475) through contract personnel agency to help with our marketing and promotional activities. The total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to RMB73.2 million for the six months ended 30 June 2013 (30 June 2012: RMB127.1 million).

The following table sets forth a breakdown of the total headcount of our employees and outsourcing personnel as of 30 June 2013 and 30 June 2012, respectively:

	As of 30 June 2013	As of 30 June 2012
Full-time employees	**420**	756
Contract personnel		
— Salespersons	**1,872**	5,475
— Others	**1,098**	2,025
Total employees	**3,390**	8,256

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

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

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

Purchase, Sale or Redemption of the Company's Listed Securities

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

Compliance with the Code on Corporate Governance

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 Code on Corporate Governance as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the six months ended 30 June 2013.

Model Code for Securities Transactions by Directors

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

Audit Committee

The Company has established the Audit Committee in compliance with the Rule 3.21 of the Listing Rules. The Audit Committee is responsible for, amongst other things, reviewing the financial reporting process and internal control system of the Group. The Audit Committee is also required to oversee the relationship with the independent auditors and to review the accounting policies and practices adopted by the Group. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2013 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 dividends for the six months ended 30 June 2013.

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 (www.hkex.com.hk). The interim report for the six months ended 30 June 2013 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

Guangzhou, 30 August 2013

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