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 2014

The Board refers to the profit warning announcement of the Group dated 11 July 2014. The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2014.

Total revenue of the continuing operations of the Group was approximately RMB141.7 million, representing a decrease of 41.1% from approximately RMB240.7 million for the same period of 2013.

Operating loss from the continuing operations of the Group was approximately RMB53.2 million, representing a decrease of 36.1% from approximately RMB83.3 million for the same period of 2013.

Net loss from the continuing operations was approximately RMB53.9 million as compared with a net loss of approximately RMB84.0 million for the same period of 2013.

Loss attributable to owners of the Company was approximately RMB51.6 million as compared with the attributable loss of approximately RMB86.0 million for the same period of 2013.

Loss per share from continuing operations (basic and diluted) was RMB0.019.

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

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 2014 together with comparative figures for the same period of 2013.

* *for identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover	*3*	**141,689**	240,745
Cost of sales		**(89,520)**	(120,131)
Gross profit		**52,169**	120,614
Other income		**1,394**	1,792
Changes in fair value less costs to sell in respect of biological assets		**(318)**	(510)
Selling and distribution costs		**(78,126)**	(158,766)
Administrative expenses		**(19,282)**	(46,244)
Other expenses		**(9,010)**	(226)
Finance costs	*4*	**(739)**	(653)
Loss before taxation	*5*	**(53,912)**	(83,993)
Income tax expense	*6*	**—**	—
Loss for the period from continuing operations		**(53,912)**	(83,993)
Discontinued operation			
Profit (loss) for the period from discontinued operation	*7*	**2,286**	(2,019)
Loss for the period attributable to owners of the Company		**(51,626)**	(86,012)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(208)**	11,050
Other comprehensive (expense) income for the period		**(208)**	11,050
Total comprehensive expense for the period attributable to owners of the Company		**(51,834)**	(74,962)

	Note	Six months ended 30 June **2014** ***RMB'000*** **(Unaudited)**	2013 *RMB'000* (Unaudited)
Loss per share	*9*		
From continuing and discontinued operations			
Basic and diluted (RMB)		**(0.018)**	(0.030)
From continuing operations			
Basic and diluted (RMB)		**(0.019)**	(0.029)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**273,666**	294,256
Prepaid advertising fee		**—**	123
Biological assets		**172**	170
		273,838	294,549
Current assets			
Inventories		**54,457**	55,341
Biological assets		**1,026**	1,886
Trade and other receivables	*10*	**78,144**	94,922
Restricted bank balance		**309**	309
Bank balances and cash		**47,614**	43,302
		181,550	195,760
Current liabilities			
Trade and other payables	*11*	**177,756**	212,121
Amounts due to related parties		**2,731**	1,514
Income tax payables		**9,650**	9,645
Provisions		**2,135**	1,826
		192,272	225,106
Net current liabilities		**(10,722)**	(29,346)
Total assets less current liabilities		**263,116**	265,203
Non-current liabilities			
Deferred tax liabilities		**2,031**	2,031
Loans from controlling shareholders		**43,225**	—
		45,256	2,031
Net assets		**217,860**	263,172
Capital and reserves			
Share capital		**256,639**	256,639
Reserves		**(38,779)**	6,533
Total equity		**217,860**	263,172

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 11 December 2007 as an exempted company with limited liability. The Group is principally engaged in the manufacturing and sales of household and personal care products. The Group was also engaged in the sales of herbal tea products before the discontinuation of the segment with effect from 1 July 2013. Further details are set out in note 7.

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 "**Listing Rules**").

The Group incurred a net loss of approximately RMB51,626,000 and reported a net cash outflow from operating activities of approximately RMB42,251,000 for the six months ended 30 June 2014, and had cumulative losses of approximately RMB1,438,138,000 and net current liabilities of approximately RMB10,722,000 as at 30 June 2014. In view of such circumstances, the Directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

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

(i) The Group had bank balances and cash of approximately RMB47,614,000 as at 30 June 2014.

(ii) In March 2013, Mr. CHEN Qiyuan and Ms. WAN Yuhua (collectively referred to as the "**Controlling Shareholders**") and Guangzhou Bawang Cosmetics Co., Ltd., an entity wholly-owned by the Controlling Shareholders, undertook 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. On 23 January 2014 and 26 February 2014, respective amounts of HK$9,500,000 (equivalent to approximately RMB7,470,000) and USD6,700,000 (equivalent to approximately RMB41,013,000) have been drawn down by the Group. The long-term loans are unsecured, interest-free and repayable by 29 November 2016 or earlier as determined by the Group. As at 30 June 2014, the undrawn facility amounted to approximately RMB91,517,000.

(iii) 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 repackaging the enhanced product series and exploring other sales channels; and
- — adopting various cost control measures to tighten the costs of operations, including but not limited to adopting more cost-effective advertising and promotion channels.

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.

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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation ("**Int**") and amendments 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 IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC* - Int 21	Levies

* IFRIC represents the International Financial Reporting Interpretation Committee.

The application of the above new interpretation and amendments 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.

Information reported to the most senior executive management of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on a mixture of product lines and geography. The segments are managed separately as each operating segment offers different products which require different production information to formulate different strategies. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

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

An operating segment regarding herbal tea products was discontinued in the year ended 31 December 2013. The segment information reported below does not include any amounts for this discontinued operation, which is described in more detail in note 7.

Also, the Group's senior executive management is provided with segment information concerning segment revenue and result. 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 the six months ended 30 June 2014

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	**129,483**	**6,596**	**5,610**	**141,689**
Segment losses	**(44,868)**	**(453)**	**(3,743)**	**(49,064)**
Change in fair value less costs to sell in respect of biological assets				**(318)**
Bank interest income				**106**
Other income				**1,288**
Corporate and other unallocated expenses				**(5,185)**
Finance costs				**(739)**
Loss before taxation from continuing operations				**(53,912)**

For the 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)
Change in fair value less costs to sell in respect of biological assets				(510)
Bank interest income				639
Other income				1,153
Corporate and other unallocated expenses				(14,166)
Finance costs				(653)
Loss before taxation from continuing operations				(83,993)

4. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Continuing operations		
Interest on secured bank loans wholly repayable within five years	**—**	653
Imputed interest on non-interest bearing loans from controlling shareholders	**739**	—
	739	653

5. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**(106)**	(639)
Depreciation	**13,930**	13,153
Impairment loss recognised in respect of biological assets (included in other expenses)	**726**	—
Impairment loss recognised in respect of property, plant and equipment (included in other expenses)	**6,970**	—
Impairment loss recognised (reversed) in respect of trade receivables	**1,565**	(129)
Net loss (gain) on disposal of property, plant and equipment	**14**	(391)
Net exchange (gain) loss	**(53)**	7,043
Redundancy costs	**844**	7,252
Reversal of write-down of inventories (included in cost of sales)	**(937)**	(16,855)
Write-down of inventories (included in cost of sales)	**1,227**	1,465
Write-off of inventories (included in cost of sales)	**921**	8,222

6. INCOME TAX EXPENSE

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

The PRC EIT Law allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("**HNTE**") which entitles the qualified companies to a preferential income tax rate of 15%. Bawang (Guangzhou) Co., Ltd. ("**Bawang Guangzhou**"), a PRC subsidiary of the Group, was qualified as a HNTE in 2009 and the qualification was renewed and valid until 2014. However, Bawang Guangzhou did not have any assessable profits subject to Enterprise Income Tax for the six months ended 30 June 2014 and 2013.

(ii) No provision for Hong Kong Profits Tax has been provided as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2014 and 2013.

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

(iv) Pursuant to the Implementation Rules of the EIT Law, overseas investors of foreign investment companies shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which the beneficiary owner is holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group did not make provision of withholding income tax for the six months ended 30 June 2014 and 2013 since the PRC subsidiaries incurred losses in both interim periods.

7. DISCONTINUED OPERATION

During the six months ended 30 June 2013, the Directors of the Company resolved to discontinue the production and sales of its herbal tea products due to the unsatisfactory financial performance of the business of the herbal tea products. 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 2014 and 2013 are as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Turnover	**—**	794
Cost of sales	**—**	(1,521)
Other income	**2,750**	2
Selling and distribution costs	**—**	(754)
Administrative expenses	**(74)**	(246)
Other expenses	**(390)**	(294)
Profit (loss) before taxation	**2,286**	(2,019)
Income tax expense	**—**	—
Profit (loss) for the period	**2,286**	(2,019)

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**—**	(2)
Depreciation	**16**	190
Impairment loss recognised in respect of trade receivables	**35**	—
Net loss on disposals of property, plant and equipment	**81**	11
Provision for litigation (included in other expenses)	**309**	—
Write-back of trade and other payables (included in other income)	**(2,750)**	—
Write-off of inventories (included in cost of sales)	**—**	335

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating activities	**(53)**	(274)
Investing activities	**51**	5
	(2)	(269)

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 2014 (six months ended 30 June 2013: 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 owners of the Company is based on the loss for the period from continuing and discontinued operations of approximately RMB51,626,000 (six months ended 30 June 2013: approximately RMB86,012,000) and the weighted average number of approximately 2,910,971,000 (six months ended 30 June 2013: approximately 2,910,971,000) 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 owners of the Company is based on the loss for the period from continuing operations of approximately RMB53,912,000 (six months ended 30 June 2013: approximately RMB83,993,000) and the weighted average number of approximately 2,910,971,000 (six months ended 30 June 2013: approximately 2,910,971,000) ordinary shares in issue during the period.

From discontinued operation

Basic and diluted earnings (six months ended 30 June 2013: loss) per share for the discontinued operation attributable to owners of the Company is RMB0.001 per share for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB0.001 per share), based on the profit (six months ended 30 June 2013: loss) for the period from the discontinued operation of approximately RMB2,286,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately RMB2,019,000) and the denominators detailed above for both basic and diluted earnings (six months ended 30 June 2013: loss) per share.

For the six months ended 30 June 2014 and 2013, 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 2014 and 2013 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 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current	**35,315**	56,742
Less than 3 months past due	**28,239**	20,937
More than 3 months but less than 6 months past due	**8,097**	7,225
More than 6 months but less than 12 months past due	**2,753**	1,056
More than 12 months past due	**4,362**	3,977
	78,766	89,937
Less: allowance for doubtful debts	**(6,205)**	(4,640)
	72,561	85,297

11. TRADE AND OTHER PAYABLES

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

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due within 1 month or on demand	**35,263**	42,963
Due after 1 month but within 3 months	**2,963**	5,908
	38,226	48,871

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 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted for	**14,574**	14,764

BUSINESS REVIEW

The Board reports that the total revenue of the continuing business of the Group for the six month ended 30 June 2014 was approximately RMB141.7 million, representing a decrease of approximately 41.1% from approximately RMB240.7 million for the same period of 2013. The operating loss from the continuing operations of the Group for the six months ended 30 June 2014 was approximately RMB53.2 million, representing a decrease of approximately 36.1% from approximately RMB83.3 million for the same period of 2013. For the six months ended 30 June 2014, the net loss from the continuing operations of the Group was approximately RMB53.9 million, as compared with the net loss of approximately RMB84.0 million for the same period of 2013. Detailed information on the operating performance of the Group is set forth in the section headed "Financial Review" of this announcement.

Since 2013, the Group has exercised stringent cost control measures, along with sales growth operating strategies. Due to the positive impact made on the sustainable development of the Group, the Board decided to continuously adopt the ongoing value-chain-oriented business model known as "Project Win-win (共贏項目)", performance-based rewards system known as "Job Target and Responsibility Statement (工作目標和職責責任書)", and the Sales Automation Management System (SAMS). Based on the foregoing, the Group was able to further reduce the operating costs and also improve the operating results of the continuing operations for the first half of 2014.

During the World Cup football tournament finals in June 2014, the Group seized this opportunity to further promote the Bawang anti-hair fall shampoos with its benefits to help relieving the hair-falling problems probably caused by insufficient sleeps, along with the on-going promotion slogan "Scary of hair-fall, use Bawang shampoo". Mr. Jackie Chan continued to be the brand ambassador of Bawang shampoo during the period under review.

As of 30 June 2014, the Bawang brand distribution network comprised approximately 489 distributors and 39 KA retailers, covering 26 provinces and four municipalities. Furthermore, the products of the Group were sold in Hong Kong, Singapore, Thailand, Malaysia and Cambodia.

During the period under review, the Group continued to promote the brand image of Royal Wind shampoo with the marketing theme "Anti-dandruff in Speedy and Natural Manner (快速去屑更天然)" through multiple media such as television, internet and public bus light-boxes. Mr. Han Geng was the brand ambassador during the period under review.

As of 30 June 2014, the Royal Wind brand distribution network comprised approximately 450 distributors and 34 KA retailers, covering 26 provinces and four municipalities.

The Litao products mainly comprise shower gels targeting consumers living in the second-tier or third-tier cities in China. As of 30 June 2014, the Litao products distribution network comprised approximately 356 distributors covering 26 provinces and four municipalities.

The Group's Herborn Chinese herbal skincare products 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. As of 30 June 2014, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 88 distributors covering 27 provinces and four municipalities. The Group also had about 5,500 counters in cosmetics specialty shops in China.

During the period under review, we continued to sell our natural plant skincare products series, Smerry which target young female customers in the age range of 18 to 28 who are dedicated to pursue a natural and healthy lifestyle.

The business operations of Bawang Herbal Tea have been discontinued since 1 July 2013. 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 2013.

In a presentation ceremony for the 18th 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 in China in 2013.

According to the research reports issued by Euromonitor International Limited, in terms of sales value, Bawang continued to be the No.1 Chinese herbal shampoo in 2013, which is seven years in a row.

During the period under review, we obtained the recognitions as follows:

— We were accredited as "The 2013 Innovator of the Guangdong Provincial Pharmaceutical Market (2013年度廣東省醫藥行業市場開拓先進單位)" by the Guangdong Pharmaceutical Profession Association in March 2014.

— A number of Bawang and Royal Wind branded shampoos were recognized as "The 2013 New High-tech Products in Guangdong (2013年廣東省高新技術產品)" by the Guangdong Provincial Bureau of Science & Technology in April 2014.

The Board regards these achievements as 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. The pre-trial review and the trial of this action are scheduled to take place in December 2014 and March 2015, respectively. As of the date of this announcement, the legal proceedings are in progress.

A lawsuit was filed by a distributor against Bawang Guangzhou in Guangzhou Baiyun District Law Court (the "**District Court**") whereby the distributor alleged that Bawang Guangzhou was liable to pay an outstanding reimbursement for the promotion fees pursuant to an agreement entered into between it and Bawang Guangzhou on 12 April 2010. On 20 November 2013, the District Court issued a verdict for the lawsuit whereby Bawang Guangzhou was ordered to pay the distributor of an aggregate amount of approximately RMB1.6 million and a legal cost of approximately RMB0.02 million. The distributor subsequently appealed to a higher court and the court dismissed the appeal and maintained the original adjudication.

During 2013 and the first six months of 2014, Bawang Guangzhou was a defendant in a legal action involving the alleged software infringement. Subsequently on 9 July 2014, the District Court issued a verdict for the lawsuit whereby Bawang Guangzhou was ordered to pay the software supplier an aggregate amount of RMB0.08 million.

A lawsuit was filed by a former subcontractor against Bawang (China) Beverage Company Limited ("**Bawang Beverage**") in People's Court of Songjiang District of Shanghai (the "**Shanghai Court**") in respect of a dispute in the material processing contract between the former subcontractor and Bawang Beverage. In 2013, Bawang Beverage received a civil order issued by the Shanghai Court and one of Bawang Beverage's bank accounts with an amount of approximately RMB0.3 million was frozen. On 20 June 2014, Shanghai No. 1 Intermediate People's Court gave its final ruling that Bawang Beverage was liable to the former subcontractor for an amount of approximately RMB0.64 million. As of the date of this announcement, Bawang Beverage was in the process of winding-up.

As of the date of this announcement, the Directors are of the view that the above litigations did not and will not have a material adverse effect on the Group's results of operations or financial condition.

FINANCIAL REVIEW

Continuing Operations

Revenue

During the six months ended 30 June 2014, the Group's revenue of the continuing operations amounted to approximately RMB141.7 million, representing a decrease of approximately 41.1% from approximately RMB240.7 million during the same period of 2013. The decrease was primarily attributable to the slowdown of the economy in China and the change in the business model of the traditional trade channel.

During the six months ended 30 June 2014, the Group's core brand, Bawang, generated a revenue of approximately RMB106.7 million, which accounted for approximately 75.4% of the Group's total revenue, and represented an decrease of approximately 30.3%, as compared with the same period of 2013.

During the six months ended 30 June 2014, the Group's branded Chinese herbal anti-dandruff haircare series, Royal Wind, recorded a revenue of approximately RMB18.6 million, which accounted for approximately 13.1% of the Group's total revenue, and represented a decrease of approximately 60.2%, as compared with the same period of 2013.

During the six months ended 30 June 2014, the Group's natural-based branded shampoo and shower gel products series, Litao, generated a revenue of approximately RMB9.8 million, which accounted for approximately 6.9% of the Group's total revenue, and represented a decrease of approximately 53.8%, as compared with the same period of 2013.

During the six months ended 30 June 2014, the Group's branded Chinese herbal skincare series, Herborn, recorded a revenue of approximately RMB5.4 million, which accounted for approximately 3.8% of the Group's total revenue, and represented a decrease of approximately 71.6%, as compared with the same period of 2013.

During the six months ended 30 June 2014, Smerry generated a revenue of approximately RMB1.2 million, which accounted for approximately 0.8% of the Group's total revenue.

We sell our products through extensive distribution and retail networks. During the six months ended 30 June 2014, sales to our distributors and retailers represented approximately 71.1% and approximately 28.9% respectively of the Group's total revenue.

During the six months ended 30 June 2014, our products were also sold in Hong Kong, Singapore, Thailand, Malaysia and Cambodia. The sales to these overseas markets outside the PRC accounted for approximately 5.8% of our total revenue during the six months ended 30 June 2014.

Cost of Sales

During the six months ended 30 June 2014, cost of sales amounted to approximately RMB89.5 million, representing a decrease of approximately 25.5% from approximately RMB120.1 million during the same period of 2013. Such decrease was primarily due to a decrease in raw materials and package materials consumed and wages, partially offset by the increase in the factory rental.

Gross Profit

During the six months ended 30 June 2014, the Group's gross profit decreased to approximately RMB52.2 million, representing a decrease of approximately 56.7% from RMB120.6 million in the same period of 2013. The gross profit margin for the six months ended 30 June also decreased from approximately 50.1% in 2013 to approximately 36.8% in 2014. The decrease in the gross profit margin was mainly attributable to the increase in cost of sales as a percentage of revenue and the change in the business model of traditional trade channel.

Selling and Distribution Costs

During the six months ended 30 June 2014, selling and distribution costs decreased to approximately RMB78.1 million, representing a decrease of approximately 50.8% as compared with the same period of 2013. Such decrease was primarily due to the effective cost controls leading to decrease in advertising fee, and travelling expenses as well as the saving achieved in promotion fee and salary through optimizing the resources of promotion staff.

Administrative Expenses

During the six months ended 30 June 2014, administrative expenses amounted to approximately RMB19.3 million, representing a decrease of approximately 58.2% from approximately RMB46.2 million in the same period of 2013. Such decrease was primarily due to the effective cost controls leading to decrease in salaries and allowances, office rental and meeting expenses.

Loss from Operations

The Group recorded an operating loss from its continuing operations of approximately RMB53.2 million for the six months ended 30 June 2014, as compared with the operating loss of approximately RMB83.3 million for the same period of 2013. The improvement was primarily due to the substantial decrease in the overall selling and administrative expenses. In terms of percentage of revenue, the Group's operating margin for the six months ended 30 June decreased from approximately –34.6% in 2013 to approximately –37.5% in 2014.

Finance Income and Costs

For the six months ended 30 June 2014, finance income of the Group amounted to approximately RMB0.1 million as compared with the finance income of approximately RMB0.6 million for the same period of 2013. The decrease was primarily due to the decrease in average bank balances as compared to that for the six months ended 30 June 2013.

For the six months ended 30 June 2014, the Group's imputed interest on non-interest bearing loans from controlling shareholders amounted to approximately RMB0.7 million. The Group incurred finance costs amounted to approximately RMB0.7 million on bank loans during the six months ended 30 June 2013.

Income Tax Expense

During the six months ended 30 June 2014 and 2013, the Group did not have any income tax expense and/or reversal.

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 2014, the amount of write-down of inventories and reversal of write-down of inventories were amounted to approximately RMB1.2 million and approximately RMB0.9 million (six months ended 30 June 2013: approximately RMB1.5 million and approximately RMB16.9 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 approximately RMB53.9 million for the six months ended 30 June 2014, as compared with the loss of approximately RMB84.0 million for the six months ended 30 June 2013.

Discontinued Operation

As a result of the unsatisfactory financial performance of the business of the herbal tea products, the Group discontinued 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. During the six months ended 30 June 2014, this business segment recorded a non-operating profit of approximately RMB2.3 million (six months ended 30 June 2013: operating loss of approximately RMB2.0 million).

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 approximately RMB51.6 million for the six months ended 30 June 2014, as compared with the attributable loss of approximately RMB86.0 million for the six months ended 30 June 2013.

OUTLOOK

With the structural economic reform to focus on domestic consumption rather than investment and export driven, China experienced a relatively mild pace of economic growth in the first half of 2014.

The first quarter grew 7.4% from a year earlier, which is an 18-month low and 1.4% from the previous quarter. The economic situation in the second quarter improved a bit from the first which adds to market expectations of an economic rebound.

Although the Chinese government has vowed to work out plans to stem any economic downturn during the course of economy transitions to a sustainable growth path and to meet annual targets, which include keeping the growth rate at about 7.5% and creating 10 million jobs, the Directors believed that the continuing downward pressure on the economy could not be oversighted.

For the rest of 2014, the Group will continue to adopt a prudent approach in its business development model, which could sustain the stability of the business of the Group in the medium term.

For Bawang branded products, leveraging on the distinct competitive advantages, the Group plans to promote and publicize the brand image by highlighting our core competence in Chinese herbal shampoo, accredited traditional Chinese medicine family with profound historical background, and prolonged and successful track records in market leadership. To increase the sales revenue, the Group intends to enhance its product offerings with different concepts which satisfy the needs of the various consumer segments. Additionally, the Group will repackage the enhanced product series which serve to retain the existing consumers and to attract new users at the same time.

For Royal Wind branded products, the Group will enhance the brand recognition and image through advertising and publicity campaigns. To cope with the lifestyle of the young consumers, the Group will place emphasis on the commercials of the branded shampoo through internet, smart phone messaging and micro-blogging in additional to the traditional media. To increase the same-store sales growth, the Group will design specific remuneration policy so as to motivate the in-store salespersons and hence sales revenue is increased.

For Herborn branded products, the Group will make a combination of efforts to enhance the brand loyalty and to increase the sales revenue of this branded skincare products. The Group will roll out a series of new skincare products with functionalities in anti-aging, whitening and moisturizing with re-designed packing. Additionally, the Group will re-design visual display of the sales counters so as to attract the attention of the consumers. Through the tailor-made herbal skincare seminars for the potential consumers, the Directors expect that these activities would enable the consumers to understand the basic principles and benefits of doing skincare through herbal skincare products, and that it would in turn attract the consumers to use our products resulting in the sales increase.

For Litao branded products, the Group will roll out refreshing shower-gels and plant-oil based laundry detergent and softener which target those consumers who prefer natural and healthy lifestyle.

For Smerry branded products, this mass market brand targets trendy youngsters. We will continue to focus our sales promotional efforts to expand the chain stores and further increase the same-store sales growth. To expand the revenue stream, we will explore internet sales channels which suit the lifestyle of the target consumers.

For production management, the Group intends to improve the gross profit margin by streamlining the workforce and the production process. Additionally, the Group intends to set up a material synchronization system so as to eliminate the spoilage among the production lines. The Group will continue its human resources reform through offering development programs to train up the factory managers and supervisors as "conscious operators". The Group will also offer the training and guidance programs for the frontline workers to enhance their awareness of the health, safety, and quality of products.

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 volatile business environments will focus on two areas. In the short run, the Group intends to continue building up a management team with strong experience in both domestic and global HPC sectors, to regain the sales growth momentum and profitability, and to improve investors' confidence on 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 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 2014 *RMB in million*	31 December 2013 *RMB in million*
Bank balance and cash	**47.6**	43.3
Total loans	**43.2**	—
Total assets	**455.4**	490.3
Gearing ratio[Note]	**9.5%**	—

Note: Calculated as total loans divided by total assets.

MATERIAL ACQUISITION AND DISPOSAL

As of 30 June 2014, the Group has no specific acquisition target.

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in 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 2014, 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

As of 30 June 2014, the Group did not have any significant contingent liabilities.

CAPITAL COMMITMENT

As of 30 June 2014, the capital commitment for acquisition of property, plant and equipment of the Group was approximately RMB14.6 million.

PLEDGE OF ASSETS

As of 30 June 2014, the Group had no pledge of assets.

HUMAN RESOURCES

As of 30 June 2014, the Group employed 2,016 employees (30 June 2013: 3,390), consisting of full-time employees and contract personnel in the PRC and Hong Kong. The total personnel expenses, comprising wages, salaries and benefits, and equity-settled share-based payments, amounted to approximately RMB39.5 million for the six months ended 30 June 2013 (30 June 2013: approximately RMB73.2 million).

The following table sets forth a breakdown of the total headcount of our employees and outsourcing personnel as of 30 June 2014 and 30 June 2013, respectively:

	As of 30 June 2014	As of 30 June 2013
Full-time employees	**285**	420
Contract personnel		
— Salespersons	**1,139**	1,872
— Others	**592**	1,098
Total employees personnel	**2,016**	3,390

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.

CHANGE OF DIRECTORS

On 30 June 2014, Mr. CHEN Kaizhi resigned as the independent non-executive Director and member of audit committee, remuneration committee and nomination committee of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Board is of the view that the Company has complied with the applicable code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2014, save as disclosed below.

On 30 June 2014, Mr. CHEN Kaizhi resigned as the independent non-executive Director and member of audit committee, remuneration committee and nomination committee of the Company. Following the resignation of Mr. CHEN Kaizhi, the Board comprised five Directors and of which two were independent non-executive Directors as of the date of this announcement, thus fell below the following requirements under the Listing Rules:

According to Rule 3.10(1) of the Listing Rules, the Company must appoint at least three independent non-executive directors. The Board currently had two independent non-executive Directors, and thus fell below such requirement.

According to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members. The audit committee of the Board currently comprised two members and thus fell below such requirement.

According to Rule 3.25 of the Listing Rules, the remuneration committee must comprise a majority of independent non-executive directors. The remuneration committee of the Board currently comprised two members, of which only one is independent non-executive Director and thus fell below such requirement.

According to Code Provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules, the nomination committee should comprise a majority of independent non-executive directors. The nomination committee of the Board currently comprised two members, of which only one is independent non-executive Director and thus fell below such requirement.

The Company is in the course of identifying an appropriate candidate to fill the vacancy of an independent non-executive director of the Company and a member of the audit committee, remuneration committee and nomination committee of the Board to fulfill the requirements under the Listing Rules as soon as practicable and will make further announcement in due course.

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 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 2014 with the management of the Company and recommended its adoption by the Board.

DIVIDENDS

Following review of the operating results of the Group, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

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 2014 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, 29 August 2014

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 two independent non-executive directors, namely, Dr. NGAI Wai Fung and Mr. LI Bida.