BaWang International (Group) Holding Limited
霸王國際（集團）控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01338)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board (the "**Board**") of directors (the "**Directors**") of BaWang International (Group) Holding Limited (the "**Company**") would like to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2012 together with comparative figures for the corresponding period in 2011.

* *for identification purpose only*

Consolidated income statement

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	**2012** *RMB'000*	2011 *RMB'000*
Turnover	4	**555,955**	888,909
Cost of sales		**(343,906)**	(544,154)
Gross profit		**212,049**	344,755
Changes in fair value less costs to sell of biological assets		**(665)**	1,462
Other revenue		**36**	2,451
Other net (losses)/income		**(23,002)**	841
Selling and distribution costs		**(635,029)**	(872,339)
Administrative expenses		**(88,938)**	(102,457)
Loss from operations		**(535,549)**	(625,287)
Finance income	5(a)	**1,316**	10,860
Finance costs	5(a)	**(731)**	(4,110)
Net finance income		**585**	6,750
Loss before taxation	5	**(534,964)**	(618,537)
Income tax (expense)/credit	6(a)	**(82,605)**	59,967
Loss for the year attributable to the equity shareholders of the Company		**(617,569)**	(558,570)
Loss per share (RMB yuan)			
Basic	8(a)	**(0.21)**	(0.19)
Diluted	8(b)	**(0.21)**	(0.19)

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

Consolidated statement of comprehensive income

for the year ended 31 December 2012
(Expressed in Renminbi)

	2012	2011
	RMB'000	*RMB'000*
Loss for the year attributable to the equity shareholders of the Company	**(617,569)**	(558,570)
Other comprehensive income for the year		
Exchange differences on translation of the financial statements of the operations outside the PRC	**(629)**	(5,178)
Total comprehensive income for the year attributable to the equity shareholders of the Company	**(618,198)**	(563,748)

Consolidated balance sheet
at 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 *RMB'000*
Non-current assets			
Property, plant and equipment	9	**321,619**	184,555
Prepaid advertising fee		**1,454**	3,875
Biological assets		**142**	1,297
Deferred tax assets		**—**	82,605
		323,215	272,332
Current assets			
Inventories	10	**64,801**	112,159
Biological assets		**1,836**	949
Trade and other receivables	11	**138,161**	257,972
Cash and cash equivalents		**224,608**	602,672
		429,406	973,752
Current liabilities			
Trade and other payables	12	**247,785**	201,825
Bank loans and overdrafts	13	**76,390**	—
Amounts due to related parties		**4,090**	3,730
Income tax payable		**9,656**	9,656
		337,921	215,211
Net current assets		**91,485**	758,541
Total assets less current liabilities		**414,700**	1,030,873

	Note	2012	2011
		RMB'000	*RMB'000*
Non-current liabilities			
Deferred tax liabilities		**2,031**	2,031
Net assets		**412,669**	1,028,842
Capital and reserves			
Share capital		**256,639**	256,511
Reserves		**156,030**	772,331
Total equity		**412,669**	1,028,842

Notes:

1 Reporting entity

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

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as "**Group**") and are expressed in Renminbi unless otherwise indicated. The Group is primarily engaged in the manufacturing and sales of household and personal care products. The Group is also engaged in the sales of herbal tea products since June 2010.

2 Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2012 but are extracted from those audited consolidated financial statements.

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

The Group incurred a net loss of RMB617,569,000 and reported a net cash outflow from operating activities of RMB301,652,000 for the year ended 31 December 2012, and had cumulative losses of RMB1,246,130,000 as at 31 December 2012. Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group, the directors have concluded that the Group is able to continue as a going concern and to meet their liabilities as and when they fall due in the foreseeable future, having regards to the following:

(i) The Group had cash and cash equivalents of RMB224,608,000 and net current assets of RMB91,485,000 as at 31 December 2012. In order to strengthen the Group's capital base and liquidity in the foreseeable future, the Group has obtained the following external fund sources:

— The Group obtained a short-term trade financing facility of RMB80,000,000 from Bank of China ("**BOC facility**") on 21 August 2012, with an effective period till 7 August 2013. The Group has also obtained a consent from China Merchants Bank, which agreed to provide a financing facility of RMB80,000,000 under the same terms and conditions of the BOC facility upon its expiry, so that the Group's short-term financing facility could be extended by twelve more months;

— 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.

The Group will also consider obtaining possible additional funding when necessary in the future.

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

— Having reviewed the Group's business strategy, identified various initiatives and implemented certain plans which include gradually scaling down herbal tea business, which is not expected to become profitable in near future, and focusing on the operations of two core business segments, hair-care product and skin-care product segments;

— For the above-mentioned two core business segments, 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.

The directors are continuously reviewing strategic plans to attain profitable and positive cash flow operations in the long run.

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

- Amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*

- Amendments to IAS 12, *Income taxes — Deferred tax: Recovery of underlying assets*

The adoption of the new and revised IFRSs has no significant impact on the Group's financial statements.

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

3 Segment reporting

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

- Hair-care products (mainland China and overseas)

- Herbal tea products (mainland China)

- Skin-care products (mainland China and overseas)

- Other household and personal care products (mainland China)

(a) Segment results, assets and liabilities

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

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

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

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out as below:

	Hair-care products		Herbal tea products		Skin-care products		Other household and personal care products		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Reportable segment revenue										
Revenue from external customers	446,666	567,404	17,583	167,263	67,308	89,060	24,398	65,182	555,955	888,909
Inter-segment revenue	—	2	25	4,296	—	1	—	—	25	4,299
	446,666	567,406	17,608	171,559	67,308	89,061	24,398	65,182	555,980	893,208
Reportable segment loss										
Adjusted loss from operations	(336,681)	(482,694)	(98,506)	(86,851)	(68,752)	(38,912)	(9,380)	(1,919)	(513,319)	(610,376)

(b) Reconciliations of reportable segment revenue and results

Revenue

	2012	2011
	RMB'000	*RMB'000*
Reportable segment revenue	**555,980**	893,208
Elimination of inter-segment revenue	**(25)**	(4,299)
Consolidated turnover	**555,955**	888,909

Results

	2012	2011
	RMB'000	*RMB'000*
Reportable segment loss	**(513,319)**	(610,376)
Elimination of inter-segment (profits)/losses	**(9)**	130
Changes in fair value less costs to sell of biological assets	**(665)**	1,462
Other revenue	**36**	2,451
Other net income	**944**	841
Unallocated head office and corporate expenses	**(22,536)**	(19,795)
Finance income	**1,316**	10,860
Finance costs	**(731)**	(4,110)
Consolidated loss before taxation	**(534,964)**	(618,537)

(c) Geographic information

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

	Revenues from external customers		**Specified non-current assets**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**536,555**	866,469	**321,233**	187,626
Hong Kong	**14,221**	13,813	**1,982**	2,101
Singapore	**1,614**	2,388	**—**	—
Malaysia	**428**	705	**—**	—
Myanmar	**—**	1,148	**—**	—
Thailand	**3,137**	3,482	**—**	—
Australia	**—**	904	**—**	—
	19,400	22,440	**1,982**	2,101
	555,955	888,909	**323,215**	189,727

4 Turnover

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

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Hair-care products	**446,666**	567,404
Herbal tea products	**17,583**	167,263
Skin-care products	**67,308**	89,060
Other household and personal care products	**24,398**	65,182
	555,955	888,909

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

5 Loss before taxation

Loss before taxation is arrived at after charging/crediting:

(a) Finance income and costs

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**1,206**	10,860
Net foreign exchange gains	**110**	—
	1,316	10,860
Finance costs		
Interest expense on bank borrowings	**(731)**	(3,154)
Net foreign exchange losses	**—**	(956)
	(731)	(4,110)
Net finance income	**585**	6,750

(b) Staff costs*

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**224,796**	258,172
Equity-settled share-based payment expenses	**1,896**	3,059
Contributions to defined contribution retirement plan	**6,829**	8,362
	233,521	269,593

Staff costs included directors' remuneration.

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

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

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

(c) Other items

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Depreciation (i)	**22,094**	15,490
Auditors' remuneration	**1,600**	1,380
Cost of inventories (i)	**343,906**	544,154
Impairment loss for bad and doubtful debts (Note 11(b))	**3,840**	1,725
Losses on disposal of property, plant and equipment (ii)	**25,065**	162

(i) Cost of inventories includes RMB47,876,000 (2011: RMB46,355,000) relating to staff costs and depreciation, whose amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses. Cost of inventories also included RMB63,841,000 relating to losses on disposal of inventories, which are comprised of RMB57,556,000 of inventory costs (Note 10(b)) and RMB6,285,000 of related non-deductible input value-added-tax ("**VAT**"). During the year ended 31 December 2012, the Group launched upgrading of certain product series and allowed distributors to return the unsold old series products to the Group. In line with the Group's strategy to promote the sales of upgraded product series, the Group disposed of all the returned old series products and charged the costs of returned goods and related non-deductible input VAT to the consolidated income statement.

(ii) During the year ended 31 December 2012, the Group gradually migrated certain production processes from the old production plant to the new production plant and disposed of certain facilities and machineries in the old production plant, which were not expected to be used in future production. In addition, the Group also disposed of certain display furniture in connection with the promotion of skin-care products in view of a change in marketing strategy. All the disposal losses were charged to the consolidated income statement.

6 Income tax (expense)/credit

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Over-provision in respect of prior years	**—**	509
Current tax — Hong Kong income tax		
Over-provision in respect of prior years	**—**	3,942
Deferred tax — PRC income tax		
Reversal and origination of temporary differences	**(82,605)**	55,516
Income tax (expense)/credit	**(82,605)**	59,967

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

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

The PRC Corporate Income Tax Law allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("**HNTE**") which entities the qualified companies to a preferential income tax rate of 15%. Bawang Guangzhou was qualified as a HNTE in 2009 and the qualification was valid for three years from 2009 to 2011. The qualification was renewed in 2012 and the valid period was extended by three more years to 2014. Therefore, Bawang Guangzhou was entitled to a preferential income tax rate of 15% in 2012 and 2011.

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

(iv) Pursuant to the Implementation Rules of the CIT Law, overseas investors of foreign investment companies ("**FIE**") shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which is the beneficiary owner holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group did not make provision of withholding income tax for the year ended 31 December 2012 and 2011 since the PRC subsidiaries, both Bawang Guangzhou and Bawang Beverage, incurred losses in both years.

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

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Loss before income tax	**(534,964)**	(618,537)
Income tax on loss before tax, calculated at the rates applicable to the PRC operations (i.e. 25%)	**133,741**	154,634
Effect of unused tax losses not recognised	**(69,623)**	(28,348)
Effect of other deductible temporary differences not recognised as deferred tax assets	**(2,064)**	(8,963)
Effect of tax rate differential (i)	**(14,898)**	(30,904)
Effect on deemed taxable income (ii)	**(1,226)**	(1,397)
Effect of non-deductible expenses	**(12,387)**	(3,689)
Effect of tax concessions (iii)	**(34,909)**	(25,816)
Bonus deduction of R&D expenses (iv)	**1,493**	2,568
(Under)/over provision in prior year	**(127)**	1,882
Effect of reversal of deferred tax assets recognised in prior year	**(82,605)**	—
Income tax (expense)/credit	**(82,605)**	59,967

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

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

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

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

7 Dividends

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

No dividend was declared and paid in 2012 and 2011.

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

No dividend in respect of the previous financial year was approved and paid in 2012 and 2011.

8 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB617,569,000 (2011: RMB558,570,000) and the weighted average of 2,910,158,624 ordinary shares (2011: 2,908,606,062 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	For the year ended 31 December	
	2012	2011
Issued ordinary shares at 1 January	**2,909,395,720**	2,907,820,720
Effect of share option exercised	**762,904**	785,342
Weighted average number of ordinary shares at 31 December	**2,910,158,624**	2,908,606,062

(b) Diluted loss per share

The calculation of diluted loss per share for the years ended 31 December 2012 and 2011 does not assume the exercise of the Company's share options as the effect is anti-dilutive.

9 Property, plant and equipment

The Group

	Buildings	Machinery	Leasehold improvement	Motor vehicles	Office equipment and others	Display furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
At 1 January 2011	5,494	42,725	—	13,969	21,414	1,119	993	85,714
Additions	—	5,959	—	770	4,333	18,602	110,341	140,005
Disposals	—	—	—	(466)	(155)	—	—	(621)
Transfer from construction in progress	877	1,184	—	—	—	—	(2,061)	—
At 31 December 2011 and 1 January 2012	6,371	49,868	—	14,273	25,592	19,721	109,273	225,098
Additions	207	1,428	—	808	2,887	4,653	174,350	184,333
Disposals (Note 5(c)(ii))	(1,084)	(13,823)	—	(965)	(7,435)	(23,704)	—	(47,011)
Transfer from construction in progress	—	27,448	132,533	—	2,215	—	(162,196)	—
At 31 December 2012	**5,494**	**64,921**	**132,533**	**14,116**	**23,259**	**670**	**121,427**	**362,420**
Accumulated depreciation:								
At 1 January 2011	(84)	(12,773)	—	(7,171)	(5,536)	(14)	—	(25,578)
Charge for the year	(264)	(4,601)	—	(2,400)	(4,150)	(4,075)	—	(15,490)
Written back on disposals	—	—	—	419	106	—	—	525
At 31 December 2011 and 1 January 2012	(348)	(17,374)	—	(9,152)	(9,580)	(4,089)	—	(40,543)
Charge for the year	(268)	(5,567)	(193)	(2,364)	(4,664)	(9,038)	—	(22,094)
Written back on disposals (Note 5(c)(ii))	38	4,604	—	652	3,451	13,091	—	21,836
At 31 December 2012	**(578)**	**(18,337)**	**(193)**	**(10,864)**	**(10,793)**	**(36)**	**—**	**(40,801)**
Carrying amount:								
At 31 December 2011	6,023	32,494	—	5,121	16,012	15,632	109,273	184,555
At 31 December 2012	**4,916**	**46,584**	**132,340**	**3,252**	**12,466**	**634**	**121,427**	**321,619**

(i) All property, plant and equipment owned by the Group are located in the PRC.

(ii) As at 31 December 2012, certain machinery and equipment, part of which are included in construction in progress, with a carrying amount of RMB75,351,000 (2011: nil) were pledged to secure the BOC facility (Note 13).

10 Inventories

(a) Inventories in the consolidated balance sheet comprise:

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**14,000**	17,425
Work in progress	**3,717**	5,813
Finished goods	**31,325**	59,157
Packing materials	**12,319**	25,741
Others	**3,440**	4,023
	64,801	112,159

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**309,172**	500,255
Write down of inventories	**25,603**	54,710
Reversal of write-down of inventories	**(54,710)**	(10,811)
Disposal of inventories (Note 5(c)(i))	**57,556**	—
	337,621	544,154

11 Trade and other receivables

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade debtors and bills receivable	**102,271**	150,387
Less: allowance for doubtful debts (Note 11(b))	**(7,357)**	(3,517)
	94,914	146,870
Prepayment for purchase of raw materials	**4,330**	2,112
Prepayment for purchase of fixed assets	**—**	26,944
Short-term prepaid advertising fee	**31,433**	71,699
Other receivables	**7,484**	10,347
	138,161	257,972

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

(ii) As at 31 December 2012, certain trade receivables amounting to RMB85,095,000 were pledged to secure the repayment of BOC facility loans (Note 13).

(a) Ageing analysis

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

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current	**59,404**	111,636
Less than 3 months past due	**29,308**	31,000
More than 3 months but less than 6 months past due	**7,072**	3,618
More than 6 months but less than 12 months past due	**3,858**	3,529
More than 12 months past due	**2,629**	604
	102,271	150,387
Less: impairment loss for doubtful debts	**(7,357)**	(3,517)
	94,914	146,870

(b) Impairment of trade debtors and bills receivable

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

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

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**3,517**	1,792
Impairment loss recognised	**3,840**	1,725
At 31 December	**7,357**	3,517

At 31 December 2012, the Group's trade debtors and bills receivable of RMB7,109,000 (2011: RMB3,158,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that full amount of these receivables is unlikely to be recovered. Consequently full provisions for these doubtful debts were recognised. The Group does not hold any collateral over these balances.

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

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

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**59,250**	111,368
Less than 3 months past due	**29,232**	30,928
More than 3 months but less than 6 months past due	**5,970**	3,610
More than 6 months but less than 12 months past due	**395**	962
More than 12 months but less than 24 months past due	**67**	2
	35,664	35,502
	94,914	146,870

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

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

12 Trade and other payables

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade payables	**59,738**	65,341
Receipts in advance	**18,791**	30,530
Promotion fee payable	**49,390**	20,946
Accrued payroll	**19,144**	27,390
Other payables and accruals	**100,722**	57,618
	247,785	201,825

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

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

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Due within 1 month or on demand	**51,892**	56,514
Due after 1 month but within 3 months	**7,846**	8,827
	59,738	65,341

13 Bank loans and overdrafts

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Secured bank loans within 1 year	**76,390**	—

The balance as at 31 December 2012 represented the loans drawn down from the BOC facility by Bawang Guangzhou at interest rates of 5.6%–6% per annum. The loans had various maturities of approximately one month to one year.

As disclosed in Note 2, Bawang Guangzhou obtained a BOC facility of RMB80,000,000 on 21 August 2012, which was pledged by certain machinery and equipment with carrying amount of RMB75,351,000 as at 31 December 2012 (Note 9), and was also jointly guaranteed by the Controlling Shareholders and Guangzhou Bawang.

Under this BOC facility, Bawang Guangzhou has drawn down loans in an aggregate amount of RMB76,390,000 as of 31 December 2012. These loans were further secured by certain trade receivables with an aggregate amount of RMB85,095,000 (Note 11).

14 Commitments

Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group At 31 December	
	2012	2011
	RMB'000	*RMB'000*
Contracted for	**30,050**	56,945
Authorised but not contracted for	**—**	97

15 Contingent liabilities

On 5 September 2012, a court session was held by Guangzhou Baiyun District Law Court regarding a lawsuit filed by a distributor against Bawang Guangzhou in connection with the disputed amount of reimbursement of promotion fee. Bawang Guangzhou believes the claim is without merit and is defending this action vigorously. The Group is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss, if any, given the current status of the litigation. No accrual has been recorded by the Group as of 31 December 2012 in respect of the case.

BUSINESS REVIEW

The Directors report that the total revenue of the Group for the year ended 31 December 2012 was RMB560.0 million, representing a decrease of 37.5% when compared to 2011. The operating loss of the Group for the year ended 31 December 2012 was RMB535.5 million, representing a decrease of 14.4% when compared to 2011. For the year ended 31 December 2012, the Group has recorded a loss of RMB617.6 million when compared to a loss of RMB558.6 million in 2011. For further details of the operating performance of the Group, please refer to the Financial Review section of this announcement.

The Directors would like to indicate that we have actually made some improvements in the monthly sales revenue of our core products in the first quarter of 2012 when compared to the corresponding period in 2011. Owing to the overall macroeconomic economy issues, the operating environment became challenging. Additionally, the Group's decision to scale down the operations of Herbal Tea segment resulted in a significant decline in the sales of Bawang Herbal tea products. To cope with the tough operating environments prevailing then, the Directors reviewed the business and operational strategies and identified a series of measures for improving the performance, which include cost controls and expansion of revenue streams. By the end of the year, we could find that the selling and administration expenses further decreased with sales revenue of our core products stabilized.

For the cost control measures, apart from the continuous implementation of the Sales Automation Management System (SAMS) to enhance the operational efficiency and effectiveness, the Group kicked off the "Project Excel (卓越項目)" in July 2012. This project aims at cost reduction whereby the Group has drawn up plans to realign its organizational structure, to optimize the organizational resources through downsizing a substantial number of staff members in sales promotion and logistic support, and to further tighten the budgetary control over the selling and administration expenses. The management reviews and compares the budget with actual operating performance every month, appropriately adjusts the ongoing marketing and promotion strategies where necessary, and reasonably allocates Group's resources to achieve objectives.

To enhance our corporate image and quality of products, our well-designed new Bawang Industrial Complex was inaugurated in August 2012. Following the successful inauguration of the complex, all of our production lines have been upgraded and the quality of our products has been fully enhanced. For the purpose of enhancing the consumers' knowledge about the application and benefits of traditional Chinese medicine, the Group took the opportunity of the inauguration of Bawang Industrial Complex to carry out a Chinese Herbal Cultural Trip for a group of consumers to visit our herbal plantation in Luoding, Guangdong and to see our new industrial complex and new production lines with Mr Han Geng. Through these visits, we hope to show our corporate image and quality of products for consumers and create an image of our industrial complex as "Transparent Factory" so as to enhance our brand image and the consumers' confidence in our products.

For the two core branded shampoo and haircare products, namely Bawang and Royal Wind, the Group's future directions for developing this product segment are through continuous innovation, management excellence and win-win cooperation with business partners. The Group has commenced to execute a new value-chain-oriented business model, known as "Project Win-win (共贏項目)", since October 2012 whereby the whole value chain is split into two parts. Whilst the

Group is mainly responsible for the activities in the upper stream such as research and development, manufacturing, and marketing, etc., our business partners, namely distributors and retailers, are responsible for the activities of the lower stream such as channel and in-store management. The Group will provide full supervision and essential supports to business partners. In addition, the Group will offer marketing and promotion allowances, which is calculated as a certain percentage of the sales volumes, to its business partners as a reward for their efforts in taking charge of the lower stream work. To a large extent, the Group has now controlled its marketing expenses within the budget. To enhance the management skills for attainment of sales targets and hence increase the retail sales revenues, the Group will also offer training and development programs for its business partners.

For expanding the revenue streams generated from Bawang branded product series, the Group speeded up the rollouts of new/enhanced Chinese herbal shampoo products. Consequently, a brand new herbal shampoo series which targets the female customers market, Bawang Anti-hair Fall Shampoo for Ladies and Nutri-repairing Moisturing Conditioner, were rolled out by the Group in August 2012. Furthermore, to boost the sales performance of the existing product series, the Group rolled out a nationwide promotion campaign for Bawang products known as "The Five Key Success Factors that Build up the Premium Quality of Bawang Branded Products" (五大實力，成就霸王冠軍品質). Both Mr. Jackie Chan and Ms. Kim Hui Seon continue to be the brand ambassadors.

As of 31 December 2012, the Bawang brand distribution network comprised approximately 488 distributors and 46 KA retailers, covering 26 provinces and four municipalities. Furthermore, the products are already sold in Hong Kong, Macau, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia. The Group expects to export its products to Vietnam and Indonesia in the second half of this year.

In early 2012, the Group rolled out a nationwide promotion campaign for Royal Wind products known as "Whirlwind Action (颶風行動)". We carried sales and promotional activities and offered the products at a discounted price, which lets the consumers experience Royal Wind products so as to promote its brand recognition. In August 2012, two new products under the Royal Wind shampoo series — Royal Wind Anti-hair Fall Shampoo, and Royal Wind Hydra-fresh Shampoo were rolled out which express the brand positioning of Royal Wind as "Youthful and Trendy Way to Eliminate Dandruff through Traditional Chinese Herbal Medicine" and "Eliminating Dandruff and Nourishing Your Scalp Simultaneously". Mr. Han Geng continues to be the brand ambassador.

As of 31 December 2012, the Royal Wind brand distribution network comprised approximately 440 distributors and 45 KA retailers, covering 26 provinces and four municipalities. The products are already sold in Singapore.

The Litao (麗濤) range of enhanced products is mainly comprised of shower gels targeting the mid-low end segment in the traditional channel of the PRC market to achieve the Company's goal of increasing the market coverage. As of 31 December 2012, the Litao brand distribution network comprised approximately 373 distributors, covering 26 provinces and four municipalities.

For the Herborn Chinese herbal skincare products series (本草堂系列), the Group rolled out a new high-end skincare product, Herborn Imperial Series (本草堂貴妃系列), in June 2012. The Group intends to make this new skincare series as our signature product. The internationally renowned celebrity Ms. Faye Wong (王菲) continues to act as the brand ambassador of Herborn to promote its brand image. The Group has been appointed for the third time as exclusive sponsor of skincare products to the Miss World Pageant China Finals in 2012. Apart from providing our Herborn Chinese herbal skincare products for the contestants, we also conducted a series of skincare seminars for the contestants to allow them to understand the concepts and benefits of traditional Chinese medicine. In terms of sales channels, the Group adopted a channel strategy to sell the products mainly through hypermarkets in the first three quarters of 2012, but the sales performance was not satisfactory. Effective from the fourth quarter, the Group have changed its strategy to sell the products through mainly cosmetics specialty shops, to reallocate the resources to different channels, and to provide training and development to the sales and marketing staff as well as the beauty consultants. Consequently, sales of the products has started picking up again.

As of 31 December 2012, the Group successfully set up distribution network comprising approximately 108 distributors and 11 KA retailers covering 27 provinces and four municipalities and 77 counters in department stores and/or hypermarkets. The number of counters in cosmetics specialty shops in the PRC substantially increased to approximately 4,200. In addition, the products were sold in Mannings, Watsons, Sasa and Bonjour chain stores in Hong Kong.

During the year under review, we have re-designed the packaging of our natural plant skincare products series, Smerry (雪美人). Its target customers are young females aged between 18 and 28 who pursue a natural and healthy lifestyle. In order to promote its new brand image, the new generation popular idol Ms. Jing Tian (景甜) has been appointed as its brand ambassador. With her pure and natural image, we believe that she will successfully portray the natural plant essence brand positioning of Smerry and increase its brand awareness and recognition.

As for the Chinese herbal beverage product series — Bawang Herbal Tea (霸王涼茶), the Group has taken a prudent approach when operating and developing this business since the beginning of 2012, and has outsourced most of the business operations to selected distributors. The Group has significantly scaled down sales and distribution network in 2012. As of 31 December 2012, the distribution network comprised approximately 172 distributors, covering 22 provinces and four municipalities.

According to a research report released by Euromonitor in July 2012, in terms of retail sales value, Bawang has been the No. 1 Chinese Herbal Shampoo in China from 2007 to 2011. Additionally, Bawang is also the No. 1 Chinese Anti-hair Fall Herbal Shampoo in China for the same period.

Since the second quarter in 2012, the Group has formulated and implemented a series of strategic measures to reform and streamline our business operations of each of our core products. The Directors believe that such measures would enable us to strengthen the foundation for our long term development and the sustainability of our business. Please refer to the Outlook section of this announcement for discussions of strategic development plans for the portfolio of our various brands.

In terms of the recognition gained by the Group, on top of those honors and awards which have been mentioned in the Interim Report of 2012, we have further accomplished more honors and awards in 2012.

In May 2012, the "Herborn Whitening & Nouvishing Cream" obtained the "2012 China Meiyi Award" from the The China International Beauty & Cosmetics Expo in Shanghai.

In June 2012, Bawang (Guangzhou) Co., Ltd ("**Bawang Guangzhou**") was appointed as member of a professional sub-committee in Fragrance, Cosmetic, and Laundry Products of Guangdong Provincial Light Industry Federation.

In October 2012, Bawang Guangzhou was confirmed as Guangzhou Municipal Enterprise Technology Centre by the Guangzhou Municipal Bureau of Economy and Trade. In December 2012, Bawang Guangzhou was validated as Traditional Chinese Medicine Products Key Engineering Technology Research & Development Centre of Guangzhou Municipal by the Guangzhou Municipal Bureau of Science & Communication.

In December 2012, Bawang Guangzhou was appointed as standing member of Guangdong Provincial Food & Drug Assessment & Accreditation Federation of Technology.

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

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

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue amounted to RMB556.0 million, representing a decrease of 37.5% as compared to RMB888.9 million in 2011. The decline in revenue in 2012 was principally attributable to the substantial decline in the sales of Bawang Herbal Tea (霸王涼茶). As mentioned earlier, this was due to the Group's strategy to reform and streamline our business operations in our core products, resulting in a significant reduction in the Group's investment in Bawang Herbal Tea. The decline in revenue was also attributable to the decrease in the sales of the Group's shampoo and skincare products, as set out below.

The Group's core brand, Bawang (霸王), generated RMB352.8 million in revenue, which accounted for approximately 63.5% of the Group's total revenue in 2012, and represented a decrease of 15.6% as compared to 2011.

The branded Chinese herbal anti-dandruff hair-care series, Royal Wind (追風), generated RMB102.9 million in revenue, which accounted for approximately 18.5% of the Group's total revenue in 2012, and represented a decrease of 29.4% as compared to 2011.

The nature-based branded shampoo and shower gel products series, Litao (麗濤), generated RMB15.4 million in revenue, which accounted for approximately 2.8% of the Group's total revenue in 2012, and represented a decrease of 77.6% as compared to 2011.

The branded Chinese herbal skincare series, Herborn (本草堂), generated RMB60.7 million in revenue, which accounted for approximately 10.9% of the Group's total revenue in 2012, and represented a decrease of 26.7% as compared to 2011.

Smerry (雪美人) generated RMB6.6 million in revenue, which accounted for approximately 1.2% of the Group's total revenue in 2012.

The branded Chinese herbal drink of the Group, Bawang Herbal Tea, generated RMB17.6 million in revenue, which represents approximately 3.2% of the Group's total revenue in 2012, and represented a decrease of 89.5% as compared to RMB167.3 million in 2011.

We were selling our products through extensive distribution and retail networks. During the year under review, sales to our distributors and retailers represented approximately 72.0% and approximately 28.0% of the Group's total revenue respectively.

In 2012, our products were sold in Hong Kong, Macao, Singapore, Myanmar, Thailand, Malaysia, Brunei, and Australia. The sales to these markets outside the PRC accounted for 3.5% of our total revenue for 2012.

Cost of Sales

Cost of sales for 2012 amounted to RMB343.9 million, representing a decrease of 36.8% compared to RMB544.2 million for 2011. Such change was mainly due to the decrease in sales volume of Bawang Herbal Tea products, and the reversal of write-down of inventories in the amount of RMB29.1 million.

Gross Profit

During the year under review, the Group's gross profit decreased to RMB212.0 million, representing a decrease of 38.5% as compared to RMB344.8 million for 2011. The gross profit margin decreased from 38.8% for 2011 to 38.1% for 2012. The lower gross profit margin was mainly due to the write-off of inventories, which was included in cost of sales.

Selling and Distribution Costs

Selling and distribution costs decreased to RMB635.0 million for 2012, representing a decrease of 27.2% as compared to that for 2011. Such decrease is mainly due to the decrease in advertising fee and the saving achieved in promotion fee through optimizing the resources of promotion staff.

Administrative Expenses

Administrative expenses for 2012 amounted to approximately RMB88.9 million, representing a decrease of approximately 13.2% as compared to approximately RMB102.5 million in 2011. Such decrease was mainly due to the decrease in non-capitalizable research and development expenditures, salary and remuneration payments, partially offset by the increases in legal and professional fees arising from litigation.

Loss from Operations

The Group recorded an operating loss of RMB535.5 million for 2012, as compared to the operating loss of RMB625.3 million for 2011. The Group's operating profit margin decreased from –70.3% for 2011 to –96.3% for 2012. The decrease was mainly due to the decrease in sales and partially offset by the effective control of selling and administration expenses.

Income Tax

The Group had an income tax non-cash charge of RMB82.6 million for 2012 as compared to income tax non-cash credit of RMB60.0 million for 2011. The income tax non-cash charge for 2012 represented the reversal of deferred tax assets in 2012 recognized for the tax losses and temporary differences in previous year.

Provision for Inventories

Our accounting policy prescribes that inventories are stated at the lower of cost and net realizable value ("**NRV**"). In the event that NRV falls below cost, the difference is taken as provision for inventories. As at 31 December 2012, the amount of provision for write-down of inventories was RMB25.6 million (31 December 2011: RMB54.7 million). The Group reversed a stock provision of RMB29.1 million in cost of sales for year ended 31 December 2012, as mentioned above.

Loss for the Year Attributable to the Equity Shareholder

As a combined effect of the above, the Group recorded an attributable loss of RMB617.6 million for 2012, as compared to the attributable loss of RMB558.6 million for 2011.

OUTLOOK

At the opening of the First Session of the 12th National People's Congress, Premier Wen Jiabao remarked that China would boost its fiscal spending in 2013 in a bid to deliver economic growth of 7.5 percent for the year. With China gradually steering the focus of its economy from exports and public construction to consumers, the increase in fiscal spending will be used more and more on social projects. These funds will be used to ensure and improve its people's well-being and maintain support for economic growth and structural adjustment.

As a matter of fact, to cope with the global financial crisis, China has implemented a proactive fiscal policy since 2009. Onto 2013, the Chinese leaders have again decided to continue with a prudent monetary policy and a proactive fiscal policy to prevent the economy from sliding further.

The Directors are of the view that the increase in fiscal spending would help toward improving people's lives, which would support economic growth. This could in turn help increase the per capita disposable income and living standard, and may spur demand for consumer products. Whilst the Group will continue to be cautious about its recovery progress and take a prudent approach to operate and sustain its business, we hope that the government's fiscal policy would lead to a stable macroeconomic environment which may indirectly facilitate the recovery our business. We outline below our plans and strategies for 2013.

Since the beginning 2013, the Group has adopted cost control approach supplemented by sales growth operating strategy to run its business i.e. to enhance the sale of anti-hair fall product series with new Bawang Anti-hair Fall for Ladies as main product, and to reinforce the leading brand position of Bawang herbal shampoo. We strive to enhance our brand image through two main themes: sentiment marketing and proof of quality.

For sentiment marketing, we will organize further social publicity campaigns "Shampooing for your love (為愛洗一次頭)". Whilst enhancing our brand image, the audience could feel the atmosphere of love and care and get close to the Bawang brand name. With the help of movie/TV pop stars, the campaigns will be held on selected festivals. The purpose is to foster positive response and attitude towards our corporate image, our brands and our products. So far this year, we have already coordinated two campaigns in Beijing and Guangzhou. We found from each of the campaign that the on-site atmosphere aroused the emotions and sentiments of the consumer-audience.

For proof of quality we will continue to organize the Traditional Chinese Medicine Cultural Trip so as to create an image of "Transparent Factory". We would regularly organize government officials, media, consumers and students to visit our factory, so that they can see our automated production lines and facilities for themselves and to allow them to assess the quality of our products, thereby enhancing our brand image as well as the consumers' confidence in our products.

In the beginning of 2013, the Group started to implement a performance-based rewards system, whereby the key members in the sales and marketing team have signed up Job Targets and Responsibility Statement (崗位目標責任書). Their year-end bonus will be determined based on how well they have achieved their predetermined sales target.

The successful commencement of the operations of our automated production complex in August 2012 is an important steppingstone in the development of our Group, which also strengthened the Group's determination to maintain the uncompromising quality of our products. We can now work on enhancing of various aspects of our production quality management, viz.: new product launch management, our ability to fulfill orders in time, production cost control and inventories control.

For Bawang branded products, leveraging on our core competence in traditional Chinese medicine, we market the theme "Natural and Healthy Way for Hair Regrowing (中藥養發，天然健康)" to pinpoint the difference between our products and those of our competitors. Leveraging on our strong brand recognition, we will work on enhancing our corporate image as well as brand image.

To increase the revenue stream from the Bawang branded products, the Group will further promote the Bawang Anti-hair Fall Shampoo for Ladies and upgrade the Nutri-nurishing series, so as to satisfy the needs of the office ladies who intend to have their hair nourished. Furthermore, the Group will upgrade and re-pack the Natural series. We will also roll out family size packing for Hair-blackening series and Anti-dandruff series. The Group will also develop new sales channels such as online sales and explore the possibility of selling our shampoos through the cosmetic specialty shops. We will also make use of trade fairs to drive revenue growth.

For Royal Wind branded products, the Group will continue to promote the brand image and recognition through modern media such as the internet, public transport TV commercials and mobile phone messaging. Combining with promotion and publicity events of the new movie "Dedicating to our Fading Adolescence《致我們終將逝去的青春》" of our brand ambassador Mr. Han Gen, we would get in the campus for giving out trial packing to the general consumers so as to let the young people feel the experience of "Eliminating dandruff and nourishing your scalp at the same time" offered by Royal Wind, to let them understand the new concept of "The Fresh Traditional Chinese Medicine Haircare Essence" produced by Royal Wind, and to know the new brand image "Young, Trendy and Natural". We will also focus our resources to enhance the brand recognition and brand image through internet, TV, meeting with the movie stars, give-away and freebies. Similar to Bawang branded product, the Group also plans to roll out online sales for Royal Wind shampoos.

For Herborn Chinese herbal skincare products, we will continue to enhance its brand image and brand recognition through investing in advertising and marketing campaign. We intend to use the theme "Whitening & Nourishing to Sparkle the Beauty of Chinese Ladies" to build up Herborn Imperial series as one of our signature products in the future. We plan to increase the revenue from Herborn through launching new product series and penetrating the cosmetics specialty shop channel. Similar to our two herbal shampoo branded products, we also plan to roll out online sales for Herborn.

For Bawang Herbal Tea, we will continue to adopt a prudent approach for operating and developing the business with minimum amount of spending. Our main current intention is to maintain the continuity of the brand name.

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

In terms of our development plan in overseas markets, the Group will continue to explore the possibility with potential distributors for launching our branded products to other countries. The Group is open to explore all further business opportunities with potential overseas distributors.

The Company does not have any outstanding acquisition opportunity in hand and will not actively explore opportunities that may involve potential acquisition for the time being.

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: to regain sales growth and profitability; to continue building up a management team with strong experience in both domestic and global HPC sectors; and to improve investor confidence. In the long run: to build up business model and positioning against both domestic and international competitors; to maintain well-balanced multi-brand and multi-product strategy in HPC sectors, to become a global leader of branded Chinese herbal HPC products operator; and to bring the best return to our investors.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

	31 December 2012 *RMB in million*	31 December 2011 *RMB in million*
Cash and cash equivalent	**224.6**	602.7
Total bank and other borrowings	**76.4**	Nil
Total assets	**752.6**	1,246.1
The gearing ratio[1]	**10.2%**	Nil

Note:

1. Calculate as interest-bearing borrowings divided by total assets

MATERIAL ACQUISITION AND DISPOSAL

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The operations of the Group are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. During the year under review, the Group has exported its goods to Hong Kong and certain overseas countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are mostly denominated in Renminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared. In addition, the Group paid certain advertising fees in United States Dollars or Hong Kong Dollars. The Directors are of the view that the Group conducts its business transactions principally in Renminbi and thus the exchange risk at the Group's operational level is not significant. As at 31 December 2012, 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

On 5 September 2012, a court session was held by Guangzhou Baiyun District Law Court regarding a lawsuit filed by a distributor (the "claimant") against Bawang Guangzhou in connection with a disputed amount of reimbursement for promotion fees RMB6.4 million.

The claimant alleged that an outstanding reimbursement for promotion fees is liable to be repaid by BaWang Guangzhou pursuant to an agreement entered into between it and BaWang Guangzhou on 12 April 2010. However, the Directors suspect that the invoice for promotion fees that the claimant is relying on is false and the claim is fraudulent. The claimant's case is therefore without bases. BaWang Guangzhou is defending this action vigorously.

The PRC legal counsel acting on behalf of the Group is of the view that the allegations relating to reimbursement of promotion fee are entirely without merit. The court case is now in progress, Bawang Guangzhou has submitted the essential documents to the court.

Given the current status of the litigation, the group is unable to predict the outcome of the case, or reasonably estimate a range of possible loss. As such, no accrual has been recorded by the Group as of 31 December 2012 in respect of the case.

CAPITAL COMMITMENT

As at 31 December 2012, the capital commitment of the Group was amounted to RMB30.1 million.

HUMAN RESOURCES

As of 31 December 2012, the Group employed approximately 5,075 employees (31 December 2011: 11,041), consisting of full-time employees and contract personnel in the PRC and Hong Kong. Of which, the Group also engaged approximately 2,551 salespersons (31 December 2011: 5,967) 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 RMB233.5 million for 2012 (31 December 2011: RMB269.6 million).

The following table sets forth a breakdown of the total headcount of our employees and outsourcing personnel as of 31 December 2011 and 2012:

	31 December 2012	31 December 2011
Full-time employees	**632**	792
Contract personnel		
— Salespersons	**2,551**	5,967
— Others	**1,629**	3,025
Total employees	**4,812**	9,784
Outsourcing personnel		
— Salespersons	**263**	1,257
Total headcount	**5,075**	11,041

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 Directors believe 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 year under review.

THE CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

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

The Board is of the view that the Company has complied with the code provisions set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the following deviation:

Code Provision A.6.7

One of the independent non-executive Directors and one of the non-executive Directors were unable to attend the annual general meeting of the Company held on 1 June 2012 due to their unavoidable business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with the Rule 3.21 of the Listing Rules. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2012 with the management of the Company and the Company's independent auditors and recommended its adoption by the Board.

DIVIDENDS

The Board does not recommend the payment of any final dividends in respect of the year ended 31 December 2012.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 28 May 2013.

The annual general meeting of the Company will be held on Friday, 31 May 2013. A notice of the annual general meeting will be published and despatched to shareholders in accordance with the requirement of the Listing Rules.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and the Stock Exchange (www.hkex.com.hk). The annual report for the year ended 31 December 2012 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 19 March 2013

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