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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01338)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 together with comparative figures for the same period last year.

The Board refers to the profit warning announcement of the Company dated 15 August 2018. The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2018:

Total revenue of the Group was approximately RMB126.0 million, representing an increase of approximately 17.6% from approximately RMB107.1 million for the same period last year.

Revenue through the online sales channel was approximately RMB58.3 million, representing a substantial increase of approximately 106.0% from approximately RMB28.3 million for the same period last year.

Operating loss of the Group was approximately RMB11.4 million, as compared with the operating profit of approximately RMB1.4 million for the same period last year.

Net loss was approximately RMB11.4 million, as compared with the net profit of approximately RMB1.1 million for the same period last year.

Loss attributable to owners of the Company was approximately RMB11.4 million, as compared with the profit of approximately RMB1.1 million for the same period last year.

Loss per share (both basic and diluted) was approximately RMB0.36 cents per share.

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

* *for identification purpose only*

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *3* | **125,973** | 107,126 |
| Cost of sales | | **(69,863)** | (57,287) |
| Gross profit | | **56,110** | 49,839 |
| Other income | | **1,329** | 8,729 |
| Changes in fair value less costs to sell in respect of biological assets | | **—** | (132) |
| Selling and distribution costs | | **(54,809)** | (41,221) |
| Administrative expenses | | **(13,505)** | (15,744) |
| Other expenses | | **(535)** | (121) |
| Finance costs | *4* | **—** | (219) |
| **(Loss)/profit before taxation** | *5* | **(11,410)** | 1,131 |
| Income tax expense | *6* | **—** | — |
| **(Loss)/profit for the period attributable to owners of the Company** | | **(11,410)** | 1,131 |
| **(Loss)/earnings per share** | *8* | | |
| Basic and diluted (RMB cents) | | **(0.36)** | 0.04 |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **(Loss)/profit for the period attributable to owners of the Company** | **(11,410)** | 1,131 |
| **Other comprehensive income/(expense)** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences arising on translation of foreign operations | **3,408** | (2,068) |
| **Total comprehensive expense for the period attributable to owners of the Company** | **(8,002)** | (937) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2018*

| | *Notes* | **30 June 2018 *RMB'000* (Unaudited)** | 31 December 2017 *RMB'000* (Audited) |
|---|---|---|---|
| **Non-current asset** | | | |
| Property, plant and equipment | | **128,359** | 132,403 |
| **Current assets** | | | |
| Inventories | | **44,458** | 47,581 |
| Biological assets | | **—** | — |
| Trade and other receivables | *9* | **44,893** | 45,458 |
| Amounts due from related parties | | **6,229** | 6,947 |
| Deposit with bank | | **20,000** | 20,000 |
| Bank balances and cash | | **54,279** | 46,050 |
| | | **169,859** | 166,036 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **113,938** | 117,439 |
| Amounts due to related parties | | **78** | 1,346 |
| Bank borrowings | | **12,550** | — |
| Income tax payables | | **9,070** | 9,070 |
| Provisions | | **338** | 338 |
| | | **135,974** | 128,193 |
| **Net current assets** | | **33,885** | 37,843 |
| **Net assets** | | **162,244** | 170,246 |
| **Capital and reserves** | | | |
| Share capital | *11* | **277,878** | 277,878 |
| Reserves | | **(115,634)** | (107,632) |
| **Total equity** | | **162,244** | 170,246 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

### 1. GENERAL AND BASIS OF PREPARATION

BaWang International (Group) Holding Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate holding company is Fortune Station Limited, which was incorporated in the British Virgin Islands (the "**BVI**") and was owned as to: (1) 49.57% by Heroic Hour Limited, a company that is beneficially owned as to 22.00% by Mr. CHEN Zheng He, the chief executive officer and an executive director of the Company, and 78.00% by Mr. CHEN Zheng He's six brothers and sisters; (2) 25.72% by Mr. CHEN Qiyuan, the Chairman of the board of directors; and (3) 24.71% by Ms. WAN Yuhua, a former director and the former chief executive officer of the Company (collectively referred to as the "**Controlling Shareholders**"). On 16 July 2018, Ms. WAN Yuhua had transferred her 24.71% equity interest in Fortune Station Limited to Mr. CHEN Qiyuan.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are manufacturing and sales of the household and personal care products.

The condensed consolidated financial statements of the Group are presented in Renminbi ("**RMB**"), which is the functional currency of the primary economic environment in which the principal subsidiaries of the Group operate in the People's Republic of China (the "**PRC**").

The condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance 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**") and with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**").

The Group had accumulated losses of approximately RMB1,559,834,000 as at 30 June 2018 and net cash outflow from operating activities of approximately RMB6,731,000 for the six months ended 30 June 2018. In view of these 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 RMB54,279,000 and net current assets of approximately RMB33,885,000 as at 30 June 2018; and

(ii) The Group had unutilised banking facilities of approximately RMB67,450,000 as at 30 June 2018. The banking facilities is expected to be renewed in March 2019, all relevant parties do not have objection on the renewal of banking facilities which will be extended to March 2021.

In light of the above, the directors of the Company are of the opinion that it is still appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2018 on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of Group's condensed consolidated financial statements:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014–2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |

Except as described below, the application of other new and amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

***Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers***

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from manufacturing and sales of the household and personal care products.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply this standard retrospectively only to contracts that are not completed at 1 January 2018.

*Key changes in accounting policies resulting from application of IFRS 15*

IFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

*Summary of effects arising from initial application of IFRS 15*

For the sales of goods, revenue was recognised at the point when the customers acknowledged the receipt of goods, which was taken to be the point at which the customer accepts the goods and the related risks and rewards of ownership transferred. Under IFRS 15, revenue is recognised when a customer obtains control of the goods and the sales of goods continue to measure on the same bases as measured before the effective of IFRS 15.

The Group has performed an assessment on the impact of the adoption of IFRS 15 and concluded that no material financial impact on the timing and amounts of revenue recognised in prior and current periods.

***Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments***

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information, if any.

*Key changes in accounting policies resulting from application of IFRS 9*

<u>Classification and measurement of financial assets</u>

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**").

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the Group's financial assets are continue to be measured at amortised cost upon adoption of IFRS 9 which is the same as measured under IAS 39.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, amounts due from related parties, deposits with bank and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1 January 2018 was recognised.

***New and revised IFRSs issued but not yet effective***

The IASB has issued the following new standards and amendments to existing standards which are not effective for accounting period beginning on 1 January 2018 and have not been early adopted:

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[2] |
| Annual Improvements Project | Annual Improvements to IFRSs 2015–2017 Cycle[1] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long-term Interests in Associates or Joint Ventures[1] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning 1 January 2019.
2 Effective for annual periods beginning 1 January 2021.
3 Effective date to be determined.

The Group has already commenced an assessment of the related impact of these new and amended standards on the Group. However, the Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the interim financial information will be resulted.

The preparation of the interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the annual financial statements for the year ended 31 December 2017.

## 3. REVENUE AND SEGMENT INFORMATION

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

Information reported to the executive directors of the Company, being the chief operation decision maker (the "**CODM**"), 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 CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

Also, the CODM is provided with segment information concerning segment revenue and result. Segment assets and liabilities are not reported to the CODM 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 2018**

| | **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 | **112,026** | **2,339** | **11,608** | **125,973** |
| Segment loss | **(4,391)** | **(301)** | **(5,890)** | **(10,582)** |
| Bank interest income | | | | **166** |
| Other income | | | | **1,142** |
| Corporate and other unallocated expenses | | | | **(2,136)** |
| Loss before taxation | | | | **(11,410)** |

**For the six months ended 30 June 2017**

| | Hair-care products *RMB'000* (Unaudited) | Skin-care products *RMB'000* (Unaudited) | Other household and personal care products *RMB'000* (Unaudited) | Total *RMB'000* (Unaudited) |
|---|---|---|---|---|
| Revenue from external customers | 91,512 | 2,569 | 13,045 | 107,126 |
| Segment profit/(loss) | 298 | (739) | (4,204) | (4,645) |
| Changes in fair value less costs to sell in respect of biological assets | | | | (132) |
| Bank interest income | | | | 186 |
| Other income | | | | 8,543 |
| Corporate and other unallocated expenses | | | | (2,602) |
| Finance costs | | | | (219) |
| Profit before taxation | | | | 1,131 |

Segment results represent the (loss)/profit from each segment without allocation of changes in fair value less costs to sell in respect of biological assets, bank interest income, gain on sales of scrap materials, government grants, write-back of trade and other payables, net exchange gains, central administration costs, directors' emoluments and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## 4. FINANCE COSTS

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on bank borrowings | **—***| 219 |

* The amount was less than RMB1,000.

## 5. (LOSS)/PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Bank interest income | **(166)** | (186) |
| Depreciation of property, plant and equipment | **5,230** | 6,097 |
| Impairment loss recognised in respect of trade receivables | **1,658** | 1,549 |
| Net (gain)/loss on disposal of property, plant and equipment | **(21)** | 14 |
| Redundancy costs | **310** | 125 |
| Obsolete inventories written-off (included in cost of sales) | **—** | 63 |

## 6. INCOME TAX EXPENSE

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

The PRC EIT Law allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("**HNTE**") which entitles the qualified companies to a preferential income tax rate of 15%. Bawang (Guangzhou) Co., Ltd. ("**Bawang Guangzhou**"), a PRC subsidiary of the Group, was qualified as a HNTE in 2009 and the qualification was renewed and valid until 2018. However, Bawang Guangzhou did not have any assessable profits subject to Enterprise Income Tax for the six months ended 30 June 2018 and 2017.

(ii) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the current and previous interim periods. No provision for Hong Kong Profits Tax has been provided for the current and previous interim periods as the Group does not have any assessable profits subject to Hong Kong Profits Tax for these periods.

(iii) Pursuant to the laws 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 for the current and previous interim periods.

(iv) Pursuant to the Implementation Rules of the EIT Law, overseas investors of foreign investment companies shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor incorporated in Hong Kong which holds not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group did not make any provision of withholding income tax for the six months ended 30 June 2018 and 2017, respectively since the PRC subsidiaries had accumulated losses as at 30 June 2018 and 2017.

## 7. DIVIDENDS

No dividends were paid, declared or proposed during the current and interim periods, nor have any dividend been proposed since the end of the reporting period (six months ended 30 June 2017: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the loss for the period of approximately RMB11,410,000 (six months ended 30 June 2017: profit for the period of approximately RMB1,131,000) and the weighted average number of 3,161,811,000 (six months ended 30 June 2017: 3,161,811,000) ordinary shares in issue during the period.

For the six months ended 30 June 2018 and 2017, respectively the diluted earnings per share are the same as the basic earnings per share.

The computation of diluted (loss)/earnings per share for the six months ended 30 June 2018 and 2017 did not assume the exercise of the Company's share options as the effect is anti-dilutive.

## 9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors (net of allowance for impairment of trade receivables) with the following ageing analysis presented based on the invoice date, which approximates the respective revenue recognition dates:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Less than 3 months | **30,415** | 29,920 |
| More than 3 months but less than 6 months | **3,941** | 10,438 |
| More than 6 months but less than 12 months | **—** | 1,153 |
| More than 12 months | **79** | — |
| Total debtors, net of allowance for impairment of trade receivables | **34,435** | 41,511 |
| Prepayments for purchase of raw materials | **2,533** | 1,628 |
| Short-term prepaid advertising fees | **3,379** | 392 |
| Other receivables | **4,546** | 1,927 |
| | **44,893** | 45,458 |

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

## 10. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following ageing analysis presented based on the invoice date at the end of the reporting period:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| 0–30 days | **23,008** | 23,663 |
| 31–90 days | **9,530** | 6,864 |
| Total creditors | **32,538** | 30,527 |
| Receipt in advance | **8,972** | 16,236 |
| Payable for acquisition of property, plant and equipment | **1,802** | 1,802 |
| Promotion fee payables | **10,566** | 13,838 |
| Accrued payroll | **1,636** | 4,429 |
| Other payables and accruals | **58,424** | 50,607 |
| | **113,938** | 117,439 |

## 11. SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | *'000* | *RMB$'000* |
| Ordinary shares of HK$0.1 each | | |
| Authorised ordinary shares: | | |
| At 1 January 2017 (audited), 31 December 2017 (audited), 1 January 2018 (audited) and 30 June 2018 (unaudited) | 10,000,000 | 880,500 |
| Issued and fully paid ordinary shares: | | |
| At 1 January 2017 (audited), 31 December 2017 (audited), 1 January 2018 (audited) and 30 June 2018 (unaudited) | 3,161,811 | 277,878 |

## 12. CAPITAL COMMITMENTS

| | **30 June 2018** *RMB'000* **(Unaudited)** | 31 December 2017 *RMB'000* (Audited) |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the condensed consolidated financial statements | **2,514** | 2,731 |

## BUSINESS REVIEW

The Directors reports that the total revenue of the Group for the six months ended 30 June 2018 was approximately RMB126.0 million, representing an increase of approximately 17.6% from approximately RMB107.1 million for the same period last year. The operating loss of the Group for the six months ended 30 June 2018 was approximately RMB11.4 million, as compared with the operating profit of approximately RMB1.4 million for the same period last year. The actual operating loss was lower than the range that was indicated in the profit warning announcement of the Company dated 15 August 2018 because an adjustment to the administrative expenses in the amount of approximately RMB3.0 million was subsequently made.

For the six months ended 30 June 2018, the net loss of the Group was approximately RMB11.4 million, as compared with the operating profit of approximately RMB1.1 million for the same period last year.

For further information on the operating performance of the Group, please refer to the "Financial Review" section of this announcement.

During the period under review, the Group was operating under the value-chain-oriented business model, which enabled the Group to reduce the costs of sales and administration.

To enhance the sales of various branded products, the Group carried out over 30 sales promotional activities known as "Nuclear Explosion" specifically for the points of sales in the traditional channel in various locations such as Beijing, Henan, Hubei, and Chongqing during the period under review. Whilst selling the products, the purpose of promoting and publicizing the products was also achieved. Extensive in-store promotions were also carried out on various festive days throughout the period.

In April 2018, the Group selected a popular creative singer, Mr. Mao Buyi 「毛不易」, as our image and brand ambassador of the Bawang branded shampoo and hair care products. We made full use of the image of the new brand ambassador to capture our customers' attention through advertisements on television, subways, bus stops, residential lifts and at the points-of-sales. Additionally, we publicized our Bawang branded products through interactions among the brand ambassador and his supporters on various social media platforms. With such variety of publicity contents and styles, the activities enlarged our customer base, deepened our brand penetration and boosted the sales of our products. Leveraging on the image of our image and brand ambassador, we have launched a new marketing theme: "Not easy to suffer hair fall whilst with you".

To further motivate the Group's distributors and sales team, we will continue to offer incentive leisure travel scheme for the participating distributors and internal staff members for free if they complete the predetermined sales target within a specified period.

During the period under review, for the purpose of building up the brand image of "Little King" and enhancing the sales of products, childcare tutorials were held for the young mothers to promote the concepts of using Chinese herbal childcare products. To make good use of the sales opportunities, hair care assessments and treatments were conducted for the mothers at the same time. A WeChat network for after-sale discussions addressing questions regarding childcare and hair care between the sales teams and the customers was established to promote the brand and functionalities of our products and to enhance our potential customer base.

As at 30 June 2018, the Bawang brand distribution network comprised approximately 737 distributors and nine KA retailers, covering 27 provinces and four municipalities in China. Furthermore, the products of the Group were also sold in Hong Kong, Singapore, Thailand and Malaysia.

During the period under review, the Group marketed the branded shampoo products, "Royal Wind", with the theme "Let's chase for the wind rather than wait for the wind". As at 30 June 2018, the Royal Wind brand distribution network comprised approximately 737 distributors and nine KA retailers, covering 27 provinces and four municipalities in China.

Our Litao products mainly comprised shower gels and laundry detergents, targeting consumers living in the second-tier or third-tier cities in China. The Group's goal is to widen the market coverage in China. During the period under review, the Litao products were also sold through cosmetic specialty shops throughout China. As at 30 June 2018, the Litao products distribution network comprised approximately 737 distributors and two KA retailers, covering 27 provinces and four municipalities in China.

Our Herborn Chinese herbal skincare product series targets white-collar ladies in the age range from 25 to 45 who have relatively high net incomes and are dedicated to pursue a healthy and natural lifestyle. As at 30 June 2018, the sales and distribution network for the Herborn Chinese herbal skincare products comprised approximately 93 distributors and one KA retailer covering 27 provinces and four municipalities in China. The Group is also selling the products at approximately 960 counters in cosmetics specialty shops throughout China.

As at 30 June 2018, the Group established online flagship stores for our Bawang, Royal Wind and Herborn branded products on 14 online retailing platforms in China. We will deepen our efforts in the development of this channel.

During the period under review, we have obtained, renewed, and/or are in possession of the following certificates and/or accreditations:

— a patent of an ingredient mixture for an anti-hair fall Chinese herbal shampoo and its manufacturing know-how, which was issued by the State Intellectual Property Office of China in June 2018;

— our Chinese herbal skincare series shampoo and hair care products and shower gel products were both recognised as "New Hi-Tech Products of Guangdong Province" (廣東省高新技術產品) by the New Hi-Tech Enterprise Association of Guangdong Province in December 2017 for a period of three years until the end of 2020;

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

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

— our production process for haircare and skincare products has been certified by SGS with a validity period until July 2019 as to meet the requirements of US FDA CFSAN by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2008; and

— our production process for haircare and skincare products has been certified by SGS with a validity period until July 2019 as to meet the requirements of ISO22716 by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2007.

## FINANCIAL REVIEW

### Revenue

During the six months ended 30 June 2018, the Group's revenue from operations amounted to approximately RMB126.0 million, representing an increase of approximately 17.6% from approximately RMB107.1 million for the same period last year. Revenue through the online sales channel was approximately RMB58.3 million, representing a substantial increase of approximately 106.0% from approximately RMB28.3 million for the same period last year, but such increase was partially offset by the decrease in the aggregate revenue generated from the traditional sales channels.

During the six months ended 30 June 2018, the Group's core brand, Bawang, generated a revenue of approximately RMB112.2 million, which accounted for approximately 89.0% of the Group's total revenue, and represented an increase of approximately 28.2% as compared with the same period last year.

During the six months ended 30 June 2018, the Group's branded Chinese herbal anti-dandruff haircare series, Royal Wind, generated a revenue of approximately RMB4.5 million, which accounted for approximately 3.6% of the Group's total revenue, represented a decrease of approximately 44.4% as compared with the same period last year.

During the six months ended 30 June 2018, the Group's natural-based branded shampoo, shower gel and laundry detergent products series, Litao, generated a revenue of approximately RMB4.8 million, which accounted for approximately 3.8% of the Group's total revenue, represented a decrease of approximately 34.2% as compared with the same period last year.

During the six months ended 30 June 2018, the Group's branded Chinese herbal skincare series, Herborn, generated a revenue of approximately RMB4.0 million, which accounted for approximately 3.2% of the Group's total revenue, represented an increase of approximately 53.8% as compared with the same period last year.

We sold our products through extensive distribution and retail networks. During the six months ended 30 June 2018, sales to our distributors and retailers represented approximately 91.9% and approximately 8.1%, respectively, of the Group's total revenue of continuing operations.

During the six months ended 30 June 2018, our products were also sold in Hong Kong, Singapore, Thailand and Malaysia. The sales to these overseas markets outside China accounted for approximately 3.0% of our total revenue during the six months ended 30 June 2018.

**Cost of Sales**

During the six months ended 30 June 2018, cost of sales amounted to approximately RMB69.9 million, representing an increase of approximately RMB12.6 million (or approximately 22.0%) from approximately RMB57.3 million during the same period last year. The overall increase in cost of sales was primarily due to an increase in the volume of production which was driven by higher demand for our products. As a percentage of revenue, cost of sales for the six months ended 30 June 2018 increased from approximately 53.5% in 2017 to approximately 55.5%, which was mainly due to an increase of packaging materials and direct labour costs.

**Gross Profit**

During the six months ended 30 June 2018, the Group's gross profit amounted to approximately RMB56.1 million, representing an increase of approximately 12.7% from approximately RMB49.8 million for the same period last year. The gross profit margin for the six months ended 30 June 2018 also decreased from approximately 46.5% in 2017 to approximately 44.5%. The decrease in the gross profit margin was mainly attributable to an increase of cost of sales.

**Selling and Distribution Costs**

During the six months ended 30 June 2018, selling and distribution costs amounted to approximately RMB54.8 million, representing an increase of approximately 33.0% from approximately RMB41.2 million for the same period last year. Such increase was primarily due to an increase in online marketing and promotion expenses of the online sales channel and travelling expenses.

**Administrative Expenses**

During the six months ended 30 June 2018, administrative expenses amounted to approximately RMB13.5 million, representing a decrease of approximately 14.0% from approximately RMB15.7 million for the same period last year. The decrease was primarily due to a decrease in legal and professional fees, which was partially offset by an increase in R&D expenses.

**Loss from Operations**

The Group recorded an operating loss of approximately RMB11.4 million for the six months ended 30 June 2018, as compared with the operating profit of approximately RMB1.4 million for the same period last year. The operating loss is primarily attributable to the following factors: (1) an increase in the costs of sales; (2) a decrease in other income; and (3) an increase in selling and distribution expenses. The Group's operating loss was partially offset by an increase in marginal revenue from the increase in online sales channel in the first half of 2018 as compared to the same period last year.

**Finance Costs**

For the six months ended 30 June 2018, interest on bank borrowings was less than RMB1,000 because the bank borrowing was drawn down on 26 June 2018 (six months ended 30 June 2017: RMB0.2 million).

### Other Income

The Group recorded other income of approximately RMB1.3 million for the six months ended 30 June 2018, representing a decrease of approximately 85.1% from approximately RMB8.7 million for the same period last year. Such decrease was primarily attributable to the Group ceasing to receive research and development subsidies from the PRC government and the lack of write-back of excessive provision for selling expenses that were made in previous year.

### Income Tax Expense

During the two six month periods ended 30 June 2018 and 30 June 2017, respectively, the Group did not have any income tax expense and/or reversal.

### Net Loss for the Period from Operations

As a result of the combined effect of the abovementioned factors, the Group recorded a net loss from operations of approximately RMB11.4 million for the six months ended 30 June 2018, as compared with the net profit from operations of approximately RMB1.1 million for the six months ended 30 June 2017.

### Loss for the Period Attributable to Owners of the Company

As a result of the combined effect of the above factors, the Group recorded a loss attributable to owners of the Company of approximately RMB11.4 million for the six months ended 30 June 2018, as compared with a profit attributable to owners of the Company of approximately RMB1.1 million for the same period last year.

### Events after the Reporting Period

As disclosed in the Company's announcement dated 16 July 2018, Ms. Wan Yuhua had transferred her 24.71% interest in Fortune Station Limited, the controlling shareholder of the Company, to Mr. Chen Qiyuan, and Ms. Wan Yuhua ceased to have any beneficial interest in Fortune Station Limited and the Company.

## OUTLOOK

The International Monetary Fund recently kept its annual forecast growth for China's 2018 gross domestic product ("**GDP**") unchanged at approximately 6.6% in 2018, but warned that overly rapid credit growth and trade frictions could pose risks for the Chinese economy. The Chinese GDP grew 6.8 percent in the first half of 2018, beating general market expectation, which has been buoyed by strong consumer demand and surprisingly robust property investment. However, the escalating trade dispute between the United States and China has raised uncertainty about the outlook on the Chinese economy, which has roiled Chinese financial markets recently and may develop into a near-term threat to the global economic growth.

The Directors are of the views that in line with the "New Normal" policy, the long-term trend for China would be slower investment and economic growth, which would rebalance away from investments toward internal consumption to stimulate growth. The GDP growth in China is expected to adjust smoothly downward to 6.4% in 2019. Even with this slowdown, the growth rate is still high by international standards.

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

The corporate operational theme for the rest of 2018 is "The King is back; Result is King".

For our Bawang branded product series, the Group will leverage on the publicity effect and the personal image of our young brand ambassador to develop and to expand its market segment to the younger generation. Trendy, colourful and animated packing will be designed for our Bawang branded hair care and shampoo products to attract the younger customers. Through internet and social media, the Group will make use of different marketing themes and through the blog of our brand ambassador to disseminate the concept of anti-hair fall through traditional Chinese medicine. The Group will also educate the younger customers on the importance of taking precautionary steps for anti-hair fall while they are young.

As for the Little King branded children's product series, the Group will work on the brand-building process and develop both the traditional as well as online sales channels. To enhance the brand recognition, Chinese herbal childcare briefings will be carried out together with in-store sales promotion campaigns.

For our Royal Wind branded product series, the Group will continue to make use of the marketing scheme "Let's chase for the wind, rather than wait for the wind" to target young customers who are looking for a trendy life-style. We intends to re-package this product series and to roll-out brand new series mainly through the online sales channel.

For our Herborn branded product series, the Group will expand the sales of this branded products through its online sales channel.

For the channel developments, the Group will develop its sales channels through the conventional stores using a progressive approach. The Group will concentrate its efforts to explore the potential of the cosmetic specialty shop channel and to recruit those distributors who have obtained an exclusive right to sell the HPC products in the dedicated areas inside the contracted supermarkets. Whilst the Group will continue its

"Nuclear Explosion" promotional in-store activities, we will ensure a steady development of the traditional sales channel. At the same time, leveraging on the growing trend of sales by the Group through its online sales channel over the past two years, we will continue to aggressively expand our online sales channel with well-developed trading platforms such as Taobao and Jingdong. We will refer to information generated from big data analysis and the outcome of promotional activities, which will be used as a basis to plan for future online promotions for the target customer groups, to optimize sales conversion rate and to maintain online sales growth momentum.

For production management, our production process was re-accredited to meet the requirements for good manufacturing practice for cosmetic goods by both the US FDA CFSAN and ISO 22716 during the period under review. In order to keep the customers satisfied with our products, we believe that the quality of products is of utmost importance. We will strengthen the standard production control system to ensure production efficiency. We will also ensure strict compliance to various rules and regulations on production management, such as industry safety, environmental protections, and staff welfare. We will strive to keep our production process transparent so as to enhance the customers' confidence in the quality of our products.

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

As at the date of this announcement, the Group did not have any outstanding acquisition opportunity nor was actively exploring business opportunities that may involve potential acquisition.

Looking forward, the strategic directions to sustain and develop our business in the volatile economic environments will focus on two areas: in the short run, the Group intends to increase its revenue by exploring new sales channels in household and personal care ("**HPC**") products for regaining the sales growth momentum and profitability, and to improve investors' confidence in the Group; in the long run, the Group will continue to focus on strengthening its business model and market positioning to increase its market share among domestic and international competitors, maintaining a multi-brand and multi-product strategies in the HPC sector, and becoming a leader in the branded Chinese herbal HPC products.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

| | **30 June 2018** *RMB in million* **(Unaudited)** | 31 December 2017 *RMB in million* (Audited) |
|---|---|---|
| Cash and cash equivalents | **54.3** | 46.1 |
| Total loans | **12.6** | — |
| Total assets | **298.2** | 298.4 |
| Gearing ratio[Note] | **4.2%** | — |

*Note:* Calculated as total loans divided by total assets.

## MATERIAL ACQUISITION AND DISPOSAL

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

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGING

The operations of the Group are mainly carried out in China, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. During the period under review, the Group has exported its goods to Hong Kong and certain overseas countries. The transactions were settled in either Hong Kong Dollars or United States Dollars. The Group's cash and bank deposits are mostly denominated in Renminbi. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

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

For the period ended 30 June 2018, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes. However, the Board will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when required.

## CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

## CAPITAL COMMITMENTS

As at 30 June 2018, the capital commitment for acquisition of property, plant and equipment of the Group was approximately RMB2.5 million.

## CHARGE OF ASSETS

As at 30 June 2018, buildings with carrying values of approximately RMB3.6 million (as at 30 June 2017: approximately RMB3.8 million) had been pledged to secure banking facilities granted to the Group. As at 30 June 2018, banking facilities of approximately RMB12.6 million were utilised and approximately RMB67.4 million were unutilised and available for the Group's future financing.

## TRADE AND OTHER PAYABLES

As at 30 June 2018, the trade and other payables of the Group were approximately RMB113.9 million (2017: approximately RMB117.4 million), which remained relatively stable as compared with 2017. For the period ended 30 June 2018, trade and other payables did not include any balances due to related parties.

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

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

## THE CORPORATE GOVERNANCE CODE

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 (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2018, except for the deviations as stated below.

On 22 November 2017, Mr. LI Bida ("**Mr. Li**"), a former independent non-executive director of the Company ("**INED**"), the former chairman of the remuneration committee, a former member of the nomination committee and the audit and risk management committee of the Company, passed away due to ill health. Following this event, the Board comprised five directors, including three executive directors and two INEDs.

Pursuant to Rule 3.10(1) of the Listing Rules, the number of INEDs should not fall below the minimum number of three and therefore, the Company was not in compliance with Rule 3.10(1) of the Listing Rules. Furthermore, the vacancy for chairman of the remuneration committee does not fulfil the requirement that the chairman of the remuneration committee is to be chaired by an INED under Rule 3.25 of the Listing Rules, and the requirement that the majority of the nomination committee members must be INEDs pursuant to A.5.1 of the CG Code. Moreover, the number of audit and risk management committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

With effect from 14 February 2018, Mr. CHEUNG Kin Wing ("**Mr. Cheung**"), an INED, was appointed as the chairman of the remuneration committee and a member of the nomination committee of the Company. Following the above committee appointments, the Company re-complied with Rule 3.25 of the Listing Rules and A.5.1 of the CG Code. With effect from 17 April 2018, Dr. WANG Qi ("**Dr. Wang**") was appointed as an INED and a member of the audit and risk management committee of the Company. Following the appointment of Dr. Wang, the Company re-complied with Rule 3.10(1) and Rule 3.21 of the Listing Rules.

Further details in respect of the past non-compliances and current composition of the Board may be found in the announcements of the Company dated 30 November 2017, 14 February 2018, 22 February 2018, 13 March 2018 and 17 April 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Audit and Risk Management Committee has reviewed the interim results of the Group for the six months ended 30 June 2018 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 2018.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.bawang.com.cn), IRasia (www.irasia.com/listco/hk/bawang/) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The interim report for the six months ended 30 June 2018 containing all the information required under Appendix 16 to the Listing Rules will be despatched to the shareholders and be available on the above websites in due course.

## APPRECIATION

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

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

Hong Kong, 31 August 2018

*As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely, Mr. CHEN Qiyuan, Mr. CHEN Zheng He and Mr. WONG Sin Yung, and three independent non-executive directors, namely, Dr. NGAI Wai Fung, Mr. CHEUNG Kin Wing, and Dr. Wang Qi.*