



HAO WEN HOLDINGS LIMITED

皓文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

First Quarterly Report

2011

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “Directors”) of Hao Wen Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:*

- (1) the information contained in this report is accurate and complete in all material respects and not misleading;*
- (2) there are no other matters the omission of which would make any statement in this report misleading; and*
- (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March 2011 was approximately RMB22,658,000, representing an increase of approximately 6% as compared with that of the corresponding period in 2010.
- Loss attributable to equity shareholders of the Company for the three months ended 31 March 2011 was approximately RMB8,184,000.
- Loss per share was approximately RMB0.53 cents.
- The Directors do not recommend the payment of any interim dividend for the three months ended 31 March 2011.

**QUARTERLY RESULTS (UNAUDITED)**

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2011 (the “Period”), together with the unaudited comparative figures for the three months ended 31 March 2010, as follows:

		(Unaudited) For the three months ended 31 March	
	<i>Note</i>	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Turnover</b>	3	<b>22,658</b>	21,323
Cost of sales		<b>(7,477)</b>	(7,233)
<b>Gross profit</b>		<b>15,181</b>	14,090
Selling and distribution expenses		<b>(11,322)</b>	(10,167)
General and administrative expenses		<b>(8,748)</b>	(10,294)
Other gains and loss	5	<b>(1,556)</b>	140
<b>Loss from operations</b>	6	<b>(6,445)</b>	(6,231)
Share of results of associates		<b>(288)</b>	–
Finance costs	6(a)	<b>(1,364)</b>	(3,526)
<b>Loss before taxation</b>	6	<b>(8,097)</b>	(9,757)
Income tax expenses	7	<b>(87)</b>	(61)
<b>Loss for the period</b>		<b>(8,184)</b>	(9,818)
<b>Other comprehensive loss for the period</b>			
Exchange differences on translating foreign operations		<b>(137)</b>	–
<b>Total comprehensive loss for the period</b>		<b>(8,321)</b>	(9,818)
<b>Loss attributable to owners of the Company for the period</b>		<b>(8,184)</b>	(9,818)
<b>Total comprehensive loss attributable to owners of the Company for the period</b>		<b>(8,321)</b>	(9,818)
Loss per share			
– Basic	8	<b>RMB(0.53) cents</b>	RMB(0.95) cents

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on GEM since 20 July 2001. The Group is primarily engaged in manufacture and sales of medicines and trading of shares.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated results have been prepared in accordance with International Financial Reporting Standards published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2010, except for the adoption of new interpretations and amendments to IFRSs and the accounting policies adopted for new transactions, noted below.

The Group has adopted the following new interpretations and amendments to IFRSs which are relevant to its business for the first time for these consolidated quarterly results:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (Revised)	Related party disclosures
IAS 32 (Amendments)	Classification of rights issues
IFRIC – INT 14 (Amendments)	Prepayments of a minimum funding requirements
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments

The adoption of these new interpretations and amendments to IFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRS 7	Disclosures – Transfer of financial assets <sup>1</sup>
IFRS 9	Financial instruments <sup>2</sup>
IFRS 10	Consolidated financial statements <sup>2</sup>
IFRS 11	Joint arrangements <sup>2</sup>
IFRS 12	Disclosure of interests in other entities <sup>2</sup>
IFRS 13	Fair value measurement <sup>2</sup>
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>3</sup>
IAS 19 (Revised 2011)	Employee benefit <sup>2</sup>
IAS 27 (Revised 2011)	Separate financial statement <sup>2</sup>
IAS 28 (Revised 2011)	Investments in associates and joint venture <sup>2</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 July 2011.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2013.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2012.*

The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements.

(b) **Basis of measurement**

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

(c) **Functional and presentation currency**

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its major subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

(d) **Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. **TURNOVER**

Turnover represents the sales value of goods supplied to customers, which excludes value added tax and is stated after deduction of all goods returns and trade discounts.

4. **SEGMENT REPORTING**

Throughout the period under review, the Group has been operating in a single business segment, the manufacture and sale of medicines in Mainland China. Accordingly, no segmental analysis is presented.

## 5. OTHER GAINS AND LOSS

	(Unaudited)	
	For the three months ended 31 March	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of fixed assets	–	18
Fair value gain on financial assets at fair value through profit on loss	353	–
Loss on disposal of financial assets at fair value through profit or loss	(2,047)	–
Sample income	1	4
Sundry income	137	118
	<hr/>	<hr/>
	<b>(1,556)</b>	<b>140</b>
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**6. LOSS BEFORE TAXATION**

Loss from ordinary activities before taxation is arrived at after charging:

	<b>(Unaudited)</b>	
	<b>For the three months</b>	
	<b>ended 31 March</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
<b>(a) Net finance costs/(income)</b>		
Interest on bank and other borrowings wholly repayable within five years	1,371	3,526
Bank interest income	(7)	-
	<hr/>	<hr/>
Net financial costs recognised in statement of comprehensive income	<b>1,364</b>	3,526
	<hr/>	<hr/>
<b>(b) Staff costs</b>		
Contributions to defined contribution plans	21	16
Equity-settled share-based payment expenses	-	11,842
Salaries, wages and other benefits	5,496	2,371
	<hr/>	<hr/>
Total staff costs	<b>5,517</b>	14,229
	<hr/>	<hr/>
<b>(c) Other items</b>		
Amortisation of intangible assets	299	-
Amortisation of land lease premium	-	63
Depreciation of property, plant and equipment	374	532
Advertising and promotion expenses	1,403	7,703
Auditors' remuneration	250	-
Cost of inventories sold	7,477	7,233
	<hr/>	<hr/>

**7. INCOME TAX EXPENSES**

Income tax expenses in the consolidated statement of comprehensive income represents:

	(Unaudited) For the three months ended 31 March	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC enterprise income tax for the period	<b>87</b>	61

**(i) Hong Kong profits tax**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the Period (2010: nil).

**(ii) Income taxes outside Hong Kong**

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

The subsidiary of the Group established in the PRC is generally subject to PRC enterprise income tax on its taxable income at an income tax rate of 25% in respect of the Period (2010: 25%).

**8. LOSS PER SHARE**

The calculations of basic loss per share for the three months ended 31 March 2011 are based on the loss attributable to shareholders of approximately RMB8,184,000 (2010: RMB9,818,000) respectively, and on the weighted average number of 1,532,090,909 (2010: 1,030,500,900) ordinary shares in issue during the Period.

Diluted loss per share for the three months ended 31 March 2011 and 2010 were the same as the exercise prices of the Company's share options were higher than the average market price of the shares.

**9. RESERVES**

There were no movements in reserves of the Group during the Period other than loss attributable to the owners of the Company of approximately RMB8,184,000 (2010: RMB9,818,000).

**10. DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the Period (2010: Nil).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 31 March 2011 (the "Period"), the Group recorded an unaudited consolidated turnover of approximately RMB22,658,000 (2010: RMB21,323,000), which represented an approximately 6% increase as compared with that of the corresponding period in 2010. Such increase was due to the boosting of product sales in mainland China.

The selling and distribution expenses for the Period increased by approximately RMB1,155,000 or 11% as compared with the corresponding period in 2010. This was due to the increase in the salaries and commission for salesmen during the Period.

The general and administrative expenses for the Period decreased by approximately RMB1,546,000 or 15% as compared with the corresponding period in 2010. This was mainly due to a share based payment expenses in the corresponding period in 2010 and no such expenses was incurred in the Period.

Loss attributable to shareholders of the Company for the Period amounted to RMB8,184,000 (2010: RMB9,818,000), which represented approximately RMB1,634,000 or 17% decrease as compared with the corresponding period in 2010. This was mainly due to the decrease in finance costs.

### Business Review

The Group is principally engaged in the production and sale of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China and trading of shares in Hong Kong.

### Sales and Marketing

The sales of "Puli Capsule" was approximately RMB21,291,000 (2010: RMB20,639,000), representing approximately 94% of the consolidated turnover of the Group for the Period. The sales of "Puli Capsule" for the Period increased by approximately 3% as compared with the corresponding period in 2010. The underlining factor for such increase was Glucosamine, the major ingredient of "Puli Capsule", had been included in the State Basic Medical Insurance and Labour Insurance Drug Catalogue. This stimulates the sales of "Puli Capsule" because all purchase of "Puli Capsule" can be claimed under insurance policies. In additional, the public awareness and acceptance had been therefore enhanced and this resulted in the increase of the Group's turnover.

The sales of "Plasmin Capsule" was approximately RMB1,187,000 (2010: RMB684,000), representing approximately 5% of the consolidated turnover of the Group for the Period. The sales of "Plasmin Capsule" for the Period increased by approximately 74% as compared with the corresponding period in 2010. In order to improve the sales of "Plasmin Capsule", the Group will continue to focus more on developing the prescription medicine market through doctors in hospitals. Besides, the Group will put more efforts in mass media advertising to further promote the sales of "Puli Capsule" through the OTC medicine market.

### Outlook

The Directors still anticipate that fierce competition in the pharmaceutical industry in Mainland China, together with the fact that the Group operates in a single business segment and with significant loans, will strongly affect adversely the future earnings and prospects of the Group.

Going forward, the Board will make every effort to improve the operation results of the Group and continue, among others, to look for new projects, so as to strengthen the profitability and minimise the performance risk of the Group.

## OTHER INFORMATION

### Directors' and chief executives' interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations

As at 31 March 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/ Nature of interest	No. of shares (Note)	Approximate percentage of interest
Mr. Leung King Fai	Beneficial Owner	660,000 (L)	0.043%

Notes:

The letter "L" denotes a long position in shares.

Save as disclosed above, as at 31 March 2011, none of the Directors or chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of other members of the Group**

So far as known to any Director or chief executive of the Company, as at 31 March 2011, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	No. of shares <i>(Note 1)</i>	Approximate percentage of interest
Mr. Yip Chi Fai, Stevens <i>(Note 2)</i>	Interest of a controlled corporation	193,975,000 (L)	12.66%
Beckon Investments Limited	Beneficial owner	193,975,000 (L)	12.66%
Mr. Liu Yinxiao	Beneficial owner	110,000,000 (L)	7.18%
Mr. Zhang Jinxing	Beneficial owner	86,350,000 (L)	5.64%

*Notes:*

1. The letter "L" denotes a long position in shares.
2. Mr. Yip Chi Fai, Stevens is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Beckon Investments Limited for the purpose of the SFO.

Save as disclosed above, as at 31 March 2011, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### **Options to subscribe for shares in the Company**

Pursuant to a share option scheme adopted by the Company on 24 September 2009, the Directors may, at their discretion, offer to consultants, advisors, service providers, full-time employees and Executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest immediate from the date of grant and are then exercisable within a period of ten years.

At 31 March 2011, the director, employees, consultants, advisors and other service providers of the company had the following interests in options to subscribe for shares of the company granted for nil consideration under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 of the company.

	No. of options outstanding	Date granted	Period during which options are exercisable	Exercise price per share
<b>Details of grantees</b>				
Hu Yangxiong ( <i>Director</i> )	86,760,000	20 January 2010	2 December 2009 to 1 December 2019	HK\$0.2488
Zhao Borui ( <i>Director</i> )	7,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK\$0.211
Leung King Fai ( <i>Director</i> )	4,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK\$0.211
Consultants, Former Director, Advisers, Employees & Service Providers	54,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK\$0.211

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

**Directors' and chief executives' rights to acquire shares or debt securities**

As at 31 March 2011, save as disclosed above, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

**Competing interest**

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

**Audit committee**

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee include the review and supervision of the financial reporting process and the internal monitoring system of the Group. As at the date of this report, the audit committee has three members comprising Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, the three Independent Non-executive Directors. The audit committee met one time during the Period.

The Group's unaudited first quarterly results for the Period have been reviewed by the audit committee, and it was in its opinion that (i) the preparation of such results complied with the applicable standards and statutory requirements and the requirements of the Stock Exchange and that (ii) the internal reporting and monitoring system of the Group had been properly implemented and was adequate to keep the Board informed of the business and the management affairs of the Group. During the Period, no material matters were identified and reported by the Board to the audit committee and the supervisory committee of the Board.



**Corporate Governance**

Throughout the Period under review, the Company has complied, subject to the following deviations, with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, except that:

- A.2.1 Stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As at the date of this report, Mr. Zhao Borui is the Vice Chairmen and Mr. Hu Yangxiong is the Chief Executive Officer of the Company. The Board is looking for a candidate to fill the vacancy of the Chairman.
- A.4.1 Non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

**Purchase, sale or redemption of shares**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Period.

**Code of conduct regarding directors' securities transactions**

For the Period under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions for the Period under review.

By Order of the Board  
**Hao Wen Holdings Limited**  
**Zhao Borui**  
*Vice Chairman*

Hong Kong, 16 September 2011

*As at the date hereof, the executive directors of the Company are Mr. Zhao Borui, Mr. Hu Yangxiong, Mr. Lee Cheuk Yue, Ryan, Mr. Chow Yik, Mr. Chung Chi Mang, and Mr. Leung King Fai; the independent non-executive directors of the Company are Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann.*