HAO WEN HOLDINGS LIMITED
皓文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

INTERIM REPORT 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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

- Unaudited turnover of the Group for the six months ended 30 June 2012 amounted to approximately RMB95,524,000 representing an increase of approximately 109% over the corresponding period in 2011.

- Loss attributable to owners of the Company for the six months ended 30 June 2012 was approximately RMB25,524,000.

- Loss per share for the six months ended 30 June 2012 was approximately RMB1.39 cents.

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

UNAUDITED INTERIM RESULTS

The board of Directors (the "Board") of the Company is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months and the three months ended 30 June 2012, together with the comparative unaudited figures for the corresponding periods in last financial year as follows:

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

		Six months ended 30 June		Three months ended 30 June	
	Notes	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Turnover	3	**95,524**	45,625	**47,132**	22,967
Cost of sales		**(59,628)**	(14,418)	**(29,552)**	(6,941)
Gross profit		**35,896**	31,207	**17,580**	16,026
Other gains and losses	5	**(749)**	4,739	**(216)**	6,295
Selling and distribution expenses		**(31,927)**	(20,689)	**(14,892)**	(9,367)
General and administrative expenses		**(19,203)**	(18,606)	**(10,863)**	(9,858)
(Loss)/profit from operations		**(15,983)**	(3,349)	**(8,391)**	3,096
Share of results of associates		**–**	(530)	**–**	(242)
Finance costs	6(a)	**(9,541)**	(3,504)	**(6,466)**	(2,140)
(Loss)/profit before taxation	6	**(25,524)**	(7,383)	**(14,857)**	714
Income tax expenses	7	**–**	(151)	**–**	(64)
(Loss)/profit for the period		**(25,524)**	(7,534)	**(14,857)**	650
Other comprehensive income/(loss), net of tax					
Exchange differences on translation into presentation currency		**464**	(268)	**(105)**	(131)
Total comprehensive (loss)/income for the period		**(25,060)**	(7,802)	**(14,962)**	519
(Loss)/profit for the period attributable to owners of the Company		**(25,524)**	(7,534)	**(14,857)**	650
Total comprehensive (loss)/profit attributable to owners of the Company		**(25,060)**	(7,802)	**(14,962)**	519
(Loss)/earnings per share					
– Basic and diluted	8	**(RMB1.39 cent)**	(RMB0.45 cent)	**(RMB0.81 cent)**	RMB0.04 cent

Condensed Consolidated Statement of Financial Position

	Notes	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
NON-CURRENT ASSETS			
Investment properties		1,670	1,670
Plant and equipment	10	56,996	51,346
Intangible assets		109,380	118,081
Goodwill		6,821	6,821
Interest in associates		–	9
		174,867	177,927
CURRENT ASSETS			
Inventories	11	6,301	7,930
Trade and other receivables	12	20,617	16,683
Financial assets at fair value through profit on loss		1,514	6,880
Cash and bank balances		25,322	12,010
		53,754	43,503
CURRENT LIABILITIES			
Trade and other payables	13	118,781	48,846
Bank and other borrowings		14,200	55,000
Promissory notes	14	23,205	–
Convertible notes	15	95,156	–
		251,342	103,846
Net current liabilities		(197,588)	(60,343)
Total assets less current liabilities		(22,721)	117,584
Non-current liabilities			
Promissory notes	14	–	22,746
Convertible notes	15	–	92,499
		–	115,245
NET (LIABILITIES)/ASSETS		(22,721)	2,339
CAPITAL AND RESERVES			
Share capital		17,122	17,122
Reserves	16	(39,843)	(14,783)
		(22,721)	2,339

Consolidated Statement of Changes in Equity (Unaudited)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Capital reduction reserve RMB'000	General reserve fund RMB'000	Foreign currency Translation reserve RMB'000	Accumu-lated losses RMB'000	Total RMB'000
At 1 January 2011	14,607	61,210	7,195	20,103	92,489	9,025	(1,464)	(165,346)	37,819
Total comprehensive loss for the six months ended 30 June 2011	–	–	–	–	–	–	(268)	(7,534)	(7,802)
Issue of share capital	2,515	10,870	–	–	–	–	–	–	13,385
At 30 June 2011	17,122	72,080	7,195	20,103	92,489	9,025	(1,732)	(172,880)	43,402
At 1 January 2012	17,122	72,080	7,195	20,103	92,489	9,025	(2,786)	(212,889)	2,339
Total comprehensive loss for the six months ended 30 June 2012	–	–	–	–	–	–	464	(25,524)	(25,060)
At 30 June 2012	17,122	72,080	7,195	20,103	92,489	9,025	(2,322)	(238,413)	(22,721)

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**62,860**	(9,396)
Net cash used in investing activities	**(6,677)**	(147,869)
Net cash (used in)/generated from financing activities	**(42,871)**	138,011
Net increase/(decrease) in cash and cash equivalents	**13,312**	(19,254)
Cash and cash equivalents, at 1 January	**12,010**	27,693
Cash and cash equivalents, at 30 June	**25,322**	8,439
Analysis of the balances of cash and cash equivalents cash and bank balances	**25,322**	8,439

NOTES TO FINANCIAL STATEMENTS

1. CORPORATION 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, and its shares have been listed on the GEM of the Stock Exchange with effect from 20 July 2001.

The consolidated financial statements of the Company as at and for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in the manufacture and sales of medicines, trading of biodegradable food containers and disposal industrial packaging for consumer products.

2. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The principal accounting policies adopted in these condensed financial statements are consistent with those used 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 interim results:

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-Time Adopters[3]
IFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets
IAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets
IAS 24 (Revised)	Related party disclosures

The adoption of these new interpretations and amendments to IRFSs 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.

2. BASIS OF PREPARATION *(continued)*

(a) Statement of compliance *(continued)*

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 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-Time Adopters[3]
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income[1]
IAS 19 (2011)	Employee Benefits[2]
IAS 27 (2011)	Separate Financial Statements[2]
IAS 28 (2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
IFRIC – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012.

[2] Effective for annual periods beginning on or after 1 January 2013.

[3] Effective for annual periods beginning on or after 1 January 2014.

[4] Effective for annual periods beginning on or after 1 January 2015.

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

2. BASIS OF PREPARATION *(continued)*

(a) Statement of compliance *(continued)*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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) Going concern

The Group incurred a loss attributable to the equity shareholders of the Company of RMB25,524,000 for the period. In addition, the Group had net current liabilities of RMB197,588,000 as at 30 June 2012. The Group had outstanding banks and other borrowings of approximately RMB14,200,000, which an aggregate of approximately RMB14,200,000 is due for repayment within the next twelve months after 30 June 2012. Nevertheless, the directors of the Company have adopted the going concern basis in the preparation of these consolidated financial statements based on the following:

– The directors of the Company are in ongoing negotiations with the Group's lenders to reschedule the repayment of loans and borrowings due from the Group and to seek the ongoing support to the Group from these lenders and new lenders.

– The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company.

– The directors of the Company continue to take action to tighten cost controls over factory overheads and various general and administrative expenses, and are actively seeking new investment and business.

2. BASIS OF PREPARATION *(continued)*

(b) Going concern *(continued)*

In addition, the Group underwent the following activities for the period up to the date of issue of these financial statements so as to improve its cash flows:

– The Company entered into a conditional sale and purchase agreement with an independent third party to dispose the pharmaceutical products business, a loss making business for several years, so as to improve the overall performance of the Group and hence improve its cash flows.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the investment properties and certain financial instruments, which are measured at fair values.

(d) 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.

(e) 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 any goods returns and trade discounts.

	2012 RMB'000	2011 RMB'000
Sales of pharmaceutical products	39,563	45,206
Sale of biodegradable products	52,446	–
Others	3,495	41
	95,524	45,625

4. SEGMENT REPORTING

Segment revenues and results

(Unaudited)
For the six months ended 30 June

	Pharmaceutical products		Biodegradable products		Others		Consolidated	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Turnover								
External sales	39,563	45,206	52,466	–	3,495	419	95,524	45,625
Result								
Segment result	(10,033)	(709)	(1,943)	–	1,471	(187)	(10,505)	(896)
Unallocated corporate expenses							(5,478)	(2,453)
Loss from operations							(15,983)	(3,349)
Share of results of associates							-	(530)
Finance costs							(9,541)	(3,504)
Loss before taxation							(25,524)	(7,383)
Income tax expenses							-	(151)
Loss for the period							(25,524)	(7,534)

4. SEGMENT REPORTING *(continued)*

Segment revenues and results *(continued)*

	(Unaudited) For the three months ended 30 June							
	Pharmaceutical products		Biodegradable products		Others		Consolidated	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Turnover								
External sales	18,922	22,758	24,799	–	3,411	209	47,132	22,967
Result								
Segment result	(5,917)	(553)	(1,517)	–	1,567	(60)	(5,867)	(613)
Unallocated corporate (expenses)/income							(2,524)	3,709
(Loss)/profit from operations							(8,391)	3,096
Share of results of associates							–	(242)
Finance costs							(6,466)	(2,140)
(Loss)/profit before taxation							(14,857)	714
Income tax expenses							–	(64)
(Loss)/profit for the period							(14,857)	650

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2011: Nil).

4. SEGMENT REPORTING *(continued)*

Segment assets and liabilities

	(Unaudited) As at 30 June 2012				(Audited) As at 31 December 2011			
	Pharmaceutical products RMB'000	Biodegradable products RMB'000	Others RMB'000	Consolidated RMB'000	Pharmaceutical products RMB'000	Biodegradable products RMB'000	Others RMB'000	Consolidated RMB'000
Assets								
Segment assets	66,155	117,692	4,313	188,160	39,044	137,994	3,510	180,548
Unallocated corporate assets				40,461				40,882
				228,621				221,430
Liabilities								
Segment liabilities	89,988	2,081	206	92,275	82,892	5,482	–	88,374
Unallocated corporate liabilities				159,067				130,717
				251,342				219,091

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than interests in associates, investment properties, financial assets at fair value through profit or loss and other corporate assets.

All liabilities are allocated to operating segments other than convertible notes, promissory notes and corporate liabilities.

5. OTHER GAINS AND LOSSES

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(514)**	4,471	**(393)**	4,118
(Loss)/gain on disposal of financial assets at fair value through profit or loss	**(950)**	(1,623)	**(201)**	424
Sample income	**269**	229	**268**	228
Sundry income	**454**	784	**118**	647
Gain on disposal of a subsidiary	**–**	878	**–**	878
Loss on disposal of an associate	**(8)**	–	**(8)**	–
	(749)	4,739	**(216)**	6,295

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging:

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
(a) Net finance (costs)/income				
Interest on bank and other borrowings wholly repayable within five years	**(3,726)**	(3,595)	**(1,685)**	(2,224)
Interest on convertible notes	**(4,619)**	–	**(3,889)**	–
Interest on promissory notes	**(1,196)**	–	**(892)**	–
Bank interest income	**–**	91	**–**	84
Net financial costs recognised in consolidated statement of comprehensive income	**(9,541)**	(3,504)	**(6,466)**	(2,140)
(b) Staff costs				
Contributions to defined contribution retirement plans	**27**	44	**14**	23
Salaries, wages and other benefits	**8,616**	10,506	**4,953**	5,010
Total staff costs	**8,643**	10,550	**4,967**	5,033
(c) Other items				
Amortisation of intangible assets	**8,699**	599	**4,349**	300
Depreciation of property, plant and equipment	**1,027**	757	**511**	383
Advertising and promotion expenses	**12,570**	11,917	**11,220**	10,514
Auditors' remuneration	**816**	840	**410**	590
Cost of inventories sold	**59,628**	14,418	**29,552**	6,941

7. INCOME TAX EXPENSES

Income tax expenses in the consolidated income statement represents:

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Current tax				
PRC enterprise income tax for the year	**–**	151	**–**	64

(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 (2011: 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 (2011: 25%).

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of RMB25,524,000 (2011: RMB7,534,000) and the weighted average of 1,832,090,909 (2011: 1,649,770,000) ordinary shares in issue during the six months ended 30 June 2012.

(b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2012 and 2011 was the same as basic loss per share because the exercise price of Company's share options was higher than the average market price of the shares.

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2011: Nil).

10. OTHER PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired other property, plant and equipment of approximately RMB6,700,000 mainly comprising sundry assets.

11. INVENTORIES

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Raw materials, at cost	**2,895**	3,809
Finished goods, at cost	**1,914**	1,384
Consignment goods, at cost	**3,292**	4,537
	8,101	9,730
Less: Write-down of inventories	**(1,800)**	(1,800)
	6,301	7,930

12. TRADE AND OTHER RECEIVABLES

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Trade debtors	**75,132**	68,943
Less: allowance for doubtful debts	**(62,419)**	(62,419)
	12,713	6,524
Other receivables	**7,226**	9,542
Rental and other deposits	**612**	615
Prepayments	**66**	2
	20,617	16,683

The Group generally requires its customer to pay a deposit shortly before delivery of goods, with the remaining balances of the sales with credit periods ranging from 90 to 180 days.

12. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing analysis

An ageing analysis of trade receivables is as follows:

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
0 to 30 days	**9,742**	5,436
31 to 60 days	**1,661**	854
61 to 90 days	**1,310**	234
91 to 180 days	**–**	–
181 to 365 days	**–**	–
Over 365 days	**62,419**	62,419
	75,132	68,943
Less: allowances for doubtful debts	**(62,419)**	(62,419)
	12,713	6,524

13. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Trade creditors	**3,569**	3,331
Accrued expenses and other payables	**115,212**	45,515
	118,781	48,846

13. TRADE AND OTHER PAYABLES *(continued)*

Ageing analysis

An ageing analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
0 to 30 days	**1,302**	1,028
31 to 60 days	**108**	155
61 to 90 days	**156**	136
91 to 180 days	**37**	46
181 to 365 days	**–**	–
Over 365 days	**1,966**	1,966
	3,569	3,331

14. PROMISSORY NOTES

On 27 May 2011, Premium Stars Investment Limited, a wholly owned subsidiary of the Company, issued promissory notes with a principal amount of HK$30,000,000 (equivalent to approximately RMB25,005,000) for acquiring the entire issued share capital of Smart Courage Group (the "Promissory Notes"). The fair value of Promissory Notes was approximately HK$26,959,000 (equivalent to approximately RMB22,470,000) on 27 May 2011. The Promissory Notes bear interest at 5% per annum and are repayable in second anniversary from the date of issue of Promissory Notes. The effective interest rate is 10.913%.

The movement of the carrying amount of the Promissory Notes during the period ended 30 June 2012 is set out below:

	RMB'000
At 31 December 2011	22,746
Interest charged calculated at an effective interest rate of 10.913%	1,196
Interest paid	(609)
Exchange adjustments	(128)
At 30 June 2012	23,205

As at 30 June 2012, the fair value of Promissory Notes was approximately HK$29,395,000 (equivalent to approximately RMB23,898,000).

15. CONVERTIBLE NOTES

On 27 May 2011, the Company issued 3% coupon convertible notes (the "Convertible Notes") with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,020,000). Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.10 per conversion share. The Convertible Notes were issued as part of the consideration for acquisition of Smart Courage Limited and its subsidiaries. The maturity date of the Convertible Notes is the date immediately preceding the second anniversary of the date of issue of the Convertible Notes. The effective interest rate of the liability component on initial recognition is 10.913% per annum.

The Convertible Notes recognised in the statement of financial position was calculated, as follows:

	RMB'000
At 31 December 2011	92,499
Interest charged calculated at an effective interest rate of 10.913%	4,619
Interest paid	(1,462)
Exchange adjustments	(500)
At 30 June 2012	95,156

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 10.913% to the liability component. The fair values of the Convertible Notes has been arrived on the basis of a valuation carried out on date of issue and at end of the reporting period by independent professional valuers not connected with the Group. The effective interest rate range from 8.82% to 10.913% per annum.

16. RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

17. EVENTS AFTER THE REPORTING PERIOD

On 16 June 2012, the Company, as the seller, entered into a Sale and Purchase Agreement (the "Agreement") with the 山西常春藤醫藥科技發展有限公司, an independent third party (the "Purchaser"), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Company's entire interest in Garner International Investments Limited, a wholly owned subsidiary of the Company, for a total consideration of HK$3,000,000. Pursuant to the Agreement, the Company also agreed to irrevocably and unconditionally waive the outstanding amount owing by the Disposal Group to the Company as at the date of Completion. For details, please refer to the Company's announcement dated 16 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2012 (the "Period"), the Group recorded an unaudited consolidated turnover of approximately RMB95,524,000 (2011: RMB45,625,000), which represented an increase of approximately 109% as compared with that of the corresponding period in 2011. Such increase was due to the introduction of a new business in trading of biodegradable food containers and industrial packaging products in Hong Kong, which represented approximately 55% of the consolidated turnover of the Group for the period.

The selling and distribution expenses for the Period increased by RMB11,238,000 or 54% as compared with the corresponding period in 2011. It was mainly due to the increase in advertising and promotion expenses, salesmen's salaries and commission.

The general and administrative expenses for the Period increased by approximately RMB597,000 or 3% as compared with the corresponding period in 2011. This was due to the increase in the amortization of intangible assets.

Net financial costs for the Period increased by approximately RMB6,037,000 or 172% as compared with the corresponding period in 2011. Such increase was due to the interest expense on the promissory notes and convertible notes issued on 27 May 2011.

Operation Review

The Group is principally engaged in the production and sale of the medicines known as "Plasmin Capsule" and "Puli Capsule" in the PRC.

"Plasmin Capsule" is classified as a "State Class 2 Protected Product of Chinese Medicine" and is entitled to an administrative protection period of seven years commencing from 19 December 2006 and expiring on 29 September 2013. During the corresponding administrative protection period, the prescription and the production technology used by the Group in producing "Plasmin Capsule" are protected and no other manufacturers in Mainland China may produce or imitate this product in Mainland China. "Puli Capsule" is classified as a "State Class 4 Protected Product of Chemical Medicine".

According to the clinical studies conducted by medical institutions in Mainland China, “Plasmin Capsule” has the principal effect of resolving blood clots and may be used for treatment of cardiovascular and cerebrovascular diseases, while “Puli Capsule” has the principal effect of treating osteoarthritis. Both products are manufactured in the Group’s production complex in Taigu County, Shanxi Province, which has obtained the Good Manufacturing Practices (“GMP”) certificate.

The biodegradable containers and disposable industrial packaging products are traded under the brandname “Earth Buddy”. The materials used to produce such products are mainly agricultural waste, such as sugar cane dregs (a side-product of sugar refinery), straw, wheat stalk, reed and bamboo. Our biodegradable products are 100% biodegradable to avoid environmental and aesthetic pollution. in this sense, our biodegradable products are truly environmental friendly as they are produced by recycling waste materials into useful products, unlike some of our competitors, who make their disposable containers of papers, which results in major global deforestation, or edible materials, such as corn starch.

Sales and Marketing

During the Period under review, the Group has only two medicines under production and sales: one is “Plasmin Capsule” which is classified as a prescription medicine and its sales are limited to hospitals which is a relatively weak market for the Group; the other is “Puli Capsule” which is classified as an over-the-counter (“OTC”) medicine which has been the major market for the Group in Mainland China.

The sales of “Puli Capsule” was approximately RMB38,200,000 (2011: RMB42,922,000), representing approximately 40% of the consolidated turnover of the Group for the Period.

The sales of “Plasmin Capsule” was approximately RMB1,363,000 (2011: RMB2,317,000), representing approximately 1% of the consolidated turnover of the Group for the Period. The sales of “Plasmin Capsule” for the Period deceased by approximately 41% as compared with the corresponding period in 2011.

Decrease in sales of medicines is due to strict competition and adverse market conditions in the pharmaceutical industry in Mainland China.

In order to increase the returns to shareholders of the Company and improve the overall performance of the Group and the cash flows, the Company entered in to a conditional sale and purchase agreement with an independent third party to dispose the pharmaceutical business.

Business Outlook and Prospects

The Executive Directors still anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to strongly affect adversely the future earnings and prospects of the Group. The Group has also encountered difficulties in the past in obtaining approvals for its new pharmaceutical products from the relevant PRC authorities that has tightened the approval standards. Given the poor performance of the Group's pharmaceutical business that has incurred losses for years, the Directors consider that the disposal of the pharmaceutical business will allow the Company to concentrate on its business in the trading of biodegradable food containers and industrial packaging products. The Directors believe that inputs of further managerial, operational and financial and sales resources from the pharmaceutical business to the biodegradable businesses will enhance the performance of the biodegradable businesses.

Looking ahead, the Executive Directors intend to focus on the biodegradable products business by penetrating and developing the European market that has a population which, on average, has a higher level of awareness of environmental issues. The Group has intention to develop the worldwide market for its biodegradable products. The Group is actively seeking strategic partners in different geographical regions to expand its business through business cooperation in various forms including technology transfer and business joint ventures. The goal of the Group is to build a sustainable and profitable global business while help protect and enhance the global environment. At present, the Group's biodegradable products are manufactured by subcontracting factories. In the event that the Group has adequate financial resources, the Group has intention to acquire or set up its own factory for the manufacturing of the biodegradable products.

Liquidity and Financial Resources

The Group generally finances its operations through internally-generated cash flows and banking facilities provided by its principal bankers. As at 30 June 2012, the Group had cash and cash equivalents amounting to approximately RMB25,322,000. With the limited available resources during the period, the Directors expected that the Group might depend on further financing from its shareholders and bankers to finance its business operations and to achieve its business objectives.

Charges on Group's Assets

At 30 June 2012 and 2011, none of the assets of the Group has been pledged to secure any loan granted to the Group.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in Renminbi and its borrowings are denominated in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

Major Events During the Period

Material Acquisitions and Disposals

On 16 June 2012, the Company entered into a sale and purchase agreement (the "Agreement") with 山西常春藤醫藥科技發展有限公司 ("Purchaser"), a third party, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Company's entire interest in Garner International Investments Limited for a total consideration of HK$3,000,000. Pursuant to the Agreement, the Company also agreed to irrevocably and unconditionally waive the outstanding amount owing by the Disposal Group to the Company as at the date of Completion (in any event the amount to be waived should not exceed HK$41.0 million).

Up to the date of this report, the transaction has not yet been completed.

Capital Structure

There is no change in capital structure during the Period.

Significant Investments

The Group had no significant investments during the Period.

Employee Information

Currently, the Group has about 130 employees working in Hong Kong and in the PRC. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Gearing Ratio

As at 30 June 2012, the Group's gearing ratio, being the ratio of total liabilities to total assets, was approximately 110%.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities.

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 30 June 2012, 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:

Long positions in ordinary shares of the Company

Name of Director	Capacity/ Nature of interest	No. of shares (Note)	Approximate percentage of interest
Mr. Hu Yangxiong	Beneficial owner and interest of a controlled corporation	85,700,000 (L)	4.68%
Mr. Leung King Fai	Beneficial owner	660,000 (L)	0.036%

Note:

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

Save as disclosed above, as at 30 June 2012, 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 30 June 2012, persons who had 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** (Note 1)	**Approximate percentage of interest**
Mr. Yip Chi Fai, Stevens (Note 2)	Interest of a controlled corporation	193,975,000 (L)	10.59%
Beckon Investments Limited	Beneficial owner	193,975,000 (L)	10.59%
Mr. Liu Yinxiao	Beneficial owner	110,000,000 (L)	6%

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 30 June 2012, 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 30 June 2012, the directors, 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.

Details of grantees	No. of options outstanding of the Period end	Date granted	Period during which options are exercisable	Exercise price per share
Hu Yangxiong *(Director)*	86,760,000	22 January 2010	2 December 2009 to 1 December 2019	HK$0.2488
Leung King Fai *(Director)*	4,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211
Consultants, Advisers, Service Providers, Employees and Others	61,000,000	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.

Director's and chief executive's rights to acquire shares or debt securities

As at 30 June 2012, 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 interests

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 directly or indirectly competes 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. 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 two times during the Period. The Group's unaudited consolidated 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.

Purchase, sale or redemption of the Company's 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

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 Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions for the Period under review.

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:

A4.1 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.

By Order of the Board
Hao Wen Holdings Limited
Chow Yik
Chairman

Hong Kong, 10 August 2012

As at the date of this report, the Board comprises the following directors:

Executive directors:
Mr. Chow Yik
Mr. Hu Yangxiong
Mr. Lee Cheuk Yue, Ryan
Mr. Leung King Fai

Independent non-executive directors:
Mr. Lam Kai Tai
Mr. Wong Ting Kon
Ms. Yeung Mo Sheung, Ann