



HAO WEN HOLDINGS LIMITED

皓文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

THIRD QUARTERLY REPORT 2010

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

- Turnover for the nine months ended 30 September 2010 amounted to approximately RMB58,567,000, representing a decrease of approximately 6% as compared to the corresponding period in 2009.
- Loss attributable to shareholders of the Company for the nine months ended 30 September 2010 was approximately RMB22,266,000.
- Loss per share for the nine months ended 30 September 2010 was approximately RMB2.10 cents.
- The Directors do not recommend the payment of any dividends for the nine months ended 30 September 2010.

FINANCIAL RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2010 (the “Period”), together with the comparative unaudited figures for the nine months ended 30 September 2009, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	58,567	62,179	19,370	18,532
Cost of sales		(18,368)	(19,166)	(6,392)	(3,711)
Gross profit		40,199	43,013	12,978	14,821
Other operating income	5	981	12	842	3
Selling and distribution expenses		(21,001)	(23,086)	(6,002)	(14,935)
General and administrative expenses		(30,141)	(17,732)	(7,364)	(5,814)
(Loss)/profit from operations		(9,962)	2,207	454	(5,925)
Net finance costs	6(a)	(12,137)	(510)	(4,080)	(244)
(Loss)/profit before taxation	6	(22,099)	1,697	(3,626)	(6,169)
Income tax	7	(174)	(1,440)	(70)	1,193
(Loss)/profit for the period		(22,273)	257	(3,696)	(4,976)
Other comprehensive income for the period					
Exchange differences on translation into presentation currency, net of tax		7	25	-	2
Total comprehensive (loss)/income for the period		(22,266)	282	(3,696)	(4,974)
(Loss)/earnings per share					
- Basic and diluted	8	RMB(2.10) cents	RMB0.04 cents	RMB(0.31) cents	RMB(0.69) cents

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 financial information for the nine months ended 30 September 2010 comprise the financial information of the Company and its subsidiaries. The Group is primarily engaged in the manufacture and sales of medicines.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* and the applicable disclosure requirements of the GEM Listing Rules.

The financial information has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements.

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”) that are relevant to its operations and effective for its accounting period beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards, International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies applied in the preparation of this financial information.

The Group has not applied any new IFRSs that have been issued but yet to be effective. The Group has commenced as assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial positions.

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.

(b) Going concern

In preparing the consolidated financial statements, the directors of the Company have considered the future liquidity of the Group in view of its net current liabilities positions as at 31 December 2009 and 30 June 2010.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

- 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 opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken together with expected results of other measures in progress, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

(c) Basis of measurement

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

(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 all goods returns and trade discounts.

4. OPERATING SEGMENT

The Board considers that presentation of segment disclosure would not be meaningful as the Group only operated in a single business segment, that is, manufacture and sale of medicines in Mainland China. Accordingly, no segmental analysis is presented.

5. OTHER OPERATING INCOME

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Sample income/(expense)	342	10	329	3
Sundry income	625	2	521	–
Gain on disposal of property, plant and equipment	14	–	–	–
	<u>981</u>	<u>12</u>	<u>850</u>	<u>3</u>

6. (LOSS)/PROFIT BEFORE TAXATION

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

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
(a) Net finance costs				
Interest on bank advances and other borrowings wholly repayable within five year	(12,142)	(513)	(4,085)	(246)
Interest income from banks	5	3	4	2
	<u>(12,137)</u>	<u>(510)</u>	<u>(4,081)</u>	<u>(244)</u>
Net financial costs recognised in profit or loss				
	<u>(12,137)</u>	<u>(510)</u>	<u>(4,081)</u>	<u>(244)</u>
The above financial income and costs include the following in respect of assets/liabilities not at fair value through profit or loss:				
Total interest income on financial assets	5	3	4	2
Total interest expense on financial liabilities	(12,142)	(513)	(4,085)	(246)

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
(b) Staff costs				
Contributions to defined contribution retirement plans	56	47	23	12
Equity-settled share-based payment expenses	10,417	–	–	–
Salaries, wages and other benefits	9,281	5,792	3,511	3,461
Total staff costs	19,754	5,839	3,534	3,473
(c) Other items				
Amortisation of land lease premium	390	189	130	63
Depreciation of property, plan and equipment	1,509	1,882	319	1,438
Advertising and promotion expenses	11,117	23,085	768	18,359
Auditors' remuneration	100	415	–	–
Cost of inventories sold	18,368	19,166	6,391	3,711

7. INCOME TAX

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax				
Provision for the PRC enterprise income tax for the period	174	1,440	70	(1,193)

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits chargeable from Hong Kong Profits Tax during the Period (2009: 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 subsidiaries of the Company established in the PRC is generally subject to PRC enterprise income tax of 25% for the Period (2009: 25%).

8. (LOSS)/EARNINGS PER SHARE**(a) Basic (loss)/earnings per share**

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
(Loss)/profit for the period	<u>(22,273)</u>	<u>257</u>	<u>(3,696)</u>	<u>(4,976)</u>
Weighted average number of ordinary shares	<u>1,061,608,194</u>	<u>720,000,000</u>	<u>1,196,261,339</u>	<u>720,000,000</u>

(b) Diluted (loss)/earnings per share

Diluted (loss)/earning per share for the nine months ended 30 September 2010 was the same as basic (loss)/earning per share because the effects of the Company's outstanding warrants and share options were ant dilutive for the nine months ended 30 September 2010.

Diluted (loss)/earning per share for the six months ended 30 September 2009 was the same as basic (loss)/earning per share as the Company does not have dilutive potential ordinary shares for the nine months ended 30 September 2010.

9. RESERVES

	For the three months ended 30 September									2009	
	Share premium	Capital reserve	Share-based compensation reserve	Warrant reserve	2010		Exchange reserve	Accumulated losses	Total		Total
					Capital reduction reserve	General reserve fund					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 July	28,082	(9,424)	20,127	142	81,124	9,025	3,393	(145,882)	(13,413)	(64,385)	
Total comprehensive loss for the period	-	-	-	-	-	-	-	(3,696)	(3,696)	(4,974)	
Shares issued	11,720	4,558	-	(142)	-	-	(4,049)	-	12,087	-	
As at 30 September	<u>39,802</u>	<u>(4,866)</u>	<u>20,127</u>	<u>-</u>	<u>81,124</u>	<u>9,025</u>	<u>(656)</u>	<u>(149,578)</u>	<u>(5,022)</u>	<u>(69,359)</u>	

	For the three months ended 30 September									2009	
	Share premium	Capital reserve	Share-based compensation reserve	Warrant reserve	2010		Exchange reserve	Accumulated losses	Total		Total
					Capital reduction reserve	General reserve fund					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January	18,214	7,195	9,704	142	-	9,025	(688)	(127,312)	(83,720)	(69,641)	
Total comprehensive loss for the period	-	-	-	-	-	-	-	(22,266)	(22,266)	282	
Other comprehensive income for the period	-	-	-	-	-	-	7	-	7	-	
Equity settled share-based transaction	-	-	10,423	-	-	-	-	-	10,423	-	
Share issued	21,588	(12,061)	-	(142)	-	-	(4,049)	-	5,336	-	
Capital reduction	-	-	-	-	81,124	-	4,074	-	85,198	-	
As at 30 September	<u>39,802</u>	<u>(4,866)</u>	<u>20,127</u>	<u>-</u>	<u>81,124</u>	<u>9,025</u>	<u>(656)</u>	<u>(149,578)</u>	<u>(5,022)</u>	<u>(69,359)</u>	

10. DIVIDEND

The Directors do not recommend the payment of any dividends for the nine months ended 30 September 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2010 (the “Period”), the Group recorded an unaudited consolidated turnover of approximately RMB58,567,000 (2009: RMB62,179,000), which represented an approximately 6% decrease as compared with that of the corresponding period in 2009. Such decrease was due to strict competition and adverse market conditions in the pharmaceutical industry in Mainland China.

The selling and distribution expenses for the Period decreased by approximately RMB2,085,000 or 9% as compared with the corresponding period in 2009. This was due to the decrease in advertising and promotion expenses.

The general and administrative expenses for the Period increased by approximately RMB12,409,000 or 70% as compared with the corresponding period in 2009. This was due to the increase in staff costs and legal and professional fees.

Loss attributable to shareholders of the Company for the Period amounted to RMB22,266,000 (2009: Profit attributable to shareholders RMB282,000). This was due to the increase in staff costs and legal and professional fees as mentioned above.

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.

With an aim to improve the sales of “Plasmin Capsule”, the Group had entered into an agency agreement (the “Agreement”) with a pharmaceutical company, a party independent of and not connected with the Group and its connected persons, in Tianjin municipality, the Mainland China (the “Agent”) pursuant to which the Group agreed to appoint the Agent to distribute the Group’s product – Plasmin Capsule in the Mainland China for a term commencing from 19 December 2006 and expiring on 29 September 2013. The Agent is the second largest pharmaceutical company in the Tianjin municipality and has its own distribution network covering throughout the Mainland China. As “Plasmin Capsule” is classified as a prescription medicine and its sales are restricted to hospitals, the Agreement would lead to an effective sales channel to enable the Group to leverage on the Agent’s broad distribution network, in turn penetrate its products into the market rapidly.

Sales and Marketing

The sales of “Puli Capsule” was approximately RMB55,695,000 (2009: RMB58,066,000), representing approximately 95% of the consolidated turnover of the Group for the Period. The sales of “Puli Capsule” for the Period decreased by approximately 4% as compared with the corresponding period in 2009. This is due to strict competition and adverse market conditions in the pharmaceutical industry in Mainland China. Besides, Glucosamine, the major ingredient of “Puli Capsule”, has been included in the State Basic Medical Insurance and Labour Insurance Drug Catalog. This further stimulates the sales of “Puli Capsule” as the expenses incurred for the purchase of “Puli Capsule” can be claimed against insurance fund. As “Puli Capsule” is classified as an OTC medicine which is the major market for the Group in the PRC, the Group will continue to focus on mass media advertising to promote the “Puli Capsule” on the OTC medicine market.

The sales of “Plasmin Capsule” was approximately RMB2,872,000 (2009: RMB4,113,000), representing approximately 5% of the consolidated turnover of the Group for the Period. The sales of “Plasmin Capsule” for the Period decreased by approximately 30% as compared with the corresponding period in 2009. This is due to the highly competitive of the prescription medicine market during the Period.

Business Outlook and Prospects

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

Looking ahead, the Group will continue to streamline its existing business operation, to lower its debt level and to explore other business opportunities which are in line with the Group’s development strategy and will provide long-term benefits to the Company’s shareholders.

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 September 2010, 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 <i>(Note 1)</i>	Approximate percentage of interest
Mr. HU Yangxiong ("Mr. Hu")	Interest of a controlled corporation	193,975,000 (L) <i>(Note 2)</i>	15.19%

Notes:

1. The letter "L" denotes a long position in shares.
2. These shares are beneficially owned by Montgomery Properties Holding Limited. By virtue of his 100% shareholding in Montgomery Properties Holding Limited, Mr. Hu is deemed or taken to be interested in the 193,975,000 shares owned by Montgomery Properties Holding Limited.

Save as disclosed above, as at 30 September 2010, 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 September 2010, 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	Approximate percentage of interest
Mr. Hu (<i>Note</i>)	Interest of a controlled corporation	193,975,000 (L)	15.19%
Montgomery Properties Holding Limited	Beneficial owner	193,975,000 (L)	15.19%

Note:

Mr. Hu is deemed or taken to be interested in these shares which are beneficially owned by his wholly owned company, namely Montgomery Properties Holding Limited for the purpose of the SFO.

Save as disclosed above, as at 30 September 2010, 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 September 2010, 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 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	Date granted	Period during which options are exercisable	Exercise price per share
Hu Yanxiong (<i>Director</i>)	86,760,000	20 January 2010	2 December 2009 to 1 December 2019	HK\$0.2488
Zhang Jianshe (<i>Former Director</i>)	7,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK\$0.211
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
Employees	2,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK\$0.211
Consultants, Advisors, & Service Providers	45,000,000	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

Save as disclosed above, as at 30 September 2010, 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 in Mainland China.

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 are to review and supervise the financial reporting process and the internal monitoring system of the Group. As at the date of this report, the audit committee has four members comprising Mr. Leung Siu Kuen (who is acting as the chairman of the audit committee), Mr. Fu Wing Kwok, Ewing and Mr. Lam Chung Fai, the three independent non-executive Directors, and Mr. Zhao Borui, an Executive Director. The audit committee met three times during the Period.

The Group's unaudited third 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.

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.

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:

Code Provision 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 and Mr. Liu Yinxiao are the Vice Chairmen and Mr. Hu Yangxiong is the Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board believes that the existing structure is beneficial to the business prospects and management of the Company. The Vice Chairmen ensure that all directors are properly briefed on issues arising at Board meetings. The Vice Chairmen are responsible for ensuring that directors receive adequate, complete and reliable information, in a timely manner. However, the Board will review such arrangement from time to time and consider the appointment of another Chief Executive Officer or Chairman if it is the best interest of the Company and its shareholders.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the existing Independent Non-executive Directors of the Company is appointed for a specific term. However, all the directors (Executive and Independent Non-executive) are subject to retirement at least once every three years under Bye-Law 87(1) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

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

Hong Kong, 8 November 2010

As at the date of this report, Mr. Zhao Borui, Liu Yinxiao, Mr. Hu Yangxiong, Mr. Chung Chi Mang and Mr. Leung King Fai are the executive directors of the Company and Mr. Leung Siu Kuen, Mr. Fu Wing Kwok, Ewing and Mr. Lam Chung Fai are the independent non-executive directors of the Company.