

Interim Report

2007/2008



Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 587)

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in gynecological medicine and medicinal healthcare products for women in the People's Republic of China.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (*Chairman*)

Mr. Deng Jie

Mr. Long Xian Feng

Mr. Bian Shu Guang

Non-Executive Directors

Mr. Wee Ee Lim

(*Mr. Chng Hwee Hong as his alternative*)

Mr. Tarn Sien Hao

Independent Non-executive Directors

Professor Kung Hsiang Fu

Professor Tso Wung Wai

Mr. Hon Yiu Ming Matthew

AUDIT COMMITTEE

Professor Kung Hsiang Fu

(*Chairman of audit committee*)

Professor Tso Wung Wai

Mr. Hon Yiu Ming Matthew

Mr. Tarn Sien Hao

REMUNERATION COMMITTEE

Professor Kung Hsiang Fu

(*Chairman of remuneration committee*)

Professor Tso Wung Wai

Mr. Hon Yiu Ming Matthew

Mr. Deng Jie

Mr. Wee Ee Lim

(*Mr. Chng Hwee Hong as his alternative*)

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Fan Shing (*ACCA, AHKICPA*)

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7th Floor

Aon China Building

29 Queen's Road Central

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Bank of China

Oversea-Chinese Banking

Corporation Limited,

Hong Kong Branch

LEGAL ADVISER AS TO HONG KONG LAWS

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place, Central

Hong Kong

AUDITORS

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

UNAUDITED INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Company**”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 31 December 2007 (“**Period**”) together with the comparative figures for the corresponding period in 2006 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | For the six months ended | |
|--------------------------------|--------------|---------------------------------|-----------------|
| | | 31 December | |
| | | 2007 | 2006 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| REVENUE | 3 | 364,969 | 366,061 |
| Cost of sales | | (143,532) | (205,096) |
| | | <hr/> | <hr/> |
| Gross profit | | 221,437 | 160,965 |
| Other income and gains | | 10,876 | 13,419 |
| Selling and distribution costs | | (91,471) | (42,241) |
| Administrative expenses | | (23,064) | (22,621) |
| Finance costs | 5 | (15,384) | (16,555) |
| | | <hr/> | <hr/> |
| PROFIT BEFORE TAX | 6 | 102,394 | 92,967 |
| Tax | 7 | (21,317) | (20,733) |
| | | <hr/> | <hr/> |
| PROFIT FOR THE PERIOD | | 81,077 | 72,234 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | 73,204 | 68,094 |
| Minority interests | | 7,873 | 4,140 |
| | | <hr/> | <hr/> |
| | | 81,077 | 72,234 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Dividend | | Nil | Nil |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EARNINGS PER SHARE | | | |
| ATTRIBUTABLE TO ORDINARY | | | |
| EQUITY HOLDERS OF | | | |
| THE COMPANY | | | |
| – Basic | 8 | HK8.3 cents | HK7.7 cents |
| | | <hr/> <hr/> | <hr/> <hr/> |
| – Diluted | 8 | HK8.3 cents | HK7.7 cents |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | 31 December 2007 (Unaudited) HK\$'000 | 30 June 2007 (Audited) HK\$'000 |
|---|--|--|
| | <i>Notes</i> | |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 143,244 | 137,863 |
| Prepaid land lease payments | 73,180 | 70,099 |
| Intangible assets | 92,157 | 90,161 |
| Deferred expenditure | 52,836 | 50,596 |
| Goodwill | 18,865 | 18,865 |
| Deposits and prepayments | 21,791 | 49,469 |
| | <hr/> | <hr/> |
| Total non-current assets | 402,073 | 417,053 |
| CURRENT ASSETS | | |
| Inventories | 24,457 | 15,464 |
| Accounts and bills receivables | 256,784 | 228,701 |
| Prepayments, deposits and other receivables | 212,792 | 119,101 |
| Cash and cash equivalents | 923,210 | 871,454 |
| | <hr/> | <hr/> |
| Total current assets | 1,417,243 | 1,234,720 |
| CURRENT LIABILITIES | | |
| Accounts and bills payables | 24,031 | 19,628 |
| Tax payable | 10,747 | 15,199 |
| Accrued liabilities and other payables | 57,882 | 40,604 |
| Bank loans | 65,687 | 61,586 |
| Dividend payable | 17,615 | – |
| | <hr/> | <hr/> |
| Total current liabilities | 175,962 | 137,017 |
| NET CURRENT ASSETS | 1,241,281 | 1,097,703 |
| | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 1,643,354 | 1,514,756 |
| NON-CURRENT LIABILITIES | | |
| Bank loans | 434,146 | 436,383 |
| Deferred tax liabilities | 16,147 | 15,462 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 450,293 | 451,845 |
| Net assets | 1,193,061 | 1,062,911 |
| | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | |
| Equity attributable to equity holders of the Company | | |
| Issued capital | 88,073 | 88,073 |
| Reserves | 1,044,710 | 909,188 |
| Proposed final dividend | – | 17,615 |
| | <hr/> | <hr/> |
| Minority interests | 1,132,783 | 1,014,876 |
| | 60,278 | 48,035 |
| | <hr/> | <hr/> |
| Total equity | 1,193,061 | 1,062,911 |
| | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From 1 July 2007 to 31 December 2007
Attributable to equity holders of the Company

| | Share | Asset | Statutory | Exchange | Proposed | | Minority | Total | | |
|------------------------------|----------------|-----------------|---------------------|---------------|---------------------|------------------|-------------|------------------|----------------|------------------|
| | Issued capital | premium account | revaluation reserve | reserve fund | fluctuation reserve | Retained profits | | | final dividend | Total |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 July 2007 | 88,073 | 248,273 | 6,096 | 63,607 | 83,521 | 507,691 | 17,615 | 1,014,876 | 48,035 | 1,062,911 |
| Final 2007 dividend declared | - | - | - | - | - | - | (17,615) | (17,615) | - | (17,615) |
| Profit for the Period | - | - | - | - | - | 73,204 | - | 73,204 | 7,873 | 81,077 |
| Exchange realignment | - | - | - | - | 62,318 | - | - | 62,318 | 4,370 | 66,688 |
| At 31 December 2007 | 88,073 | 248,273 | 6,096 | 63,607 | 145,839 | 580,895 | - | 1,132,783 | 60,278 | 1,193,061 |

From 1 July 2006 to 31 December 2006
Attributable to equity holders of the Company

| | Share | Asset | Statutory | Exchange | Proposed | | Minority | Total | | |
|--|----------------|-----------------|---------------------|---------------|---------------------|------------------|-------------|----------------|----------------|----------------|
| | Issued capital | premium account | revaluation reserve | reserve fund | fluctuation reserve | Retained profits | | | final dividend | Total |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 July 2006 | 87,973 | 247,733 | 2,704 | 47,757 | 27,310 | 410,357 | 17,615 | 841,449 | 36,572 | 878,021 |
| Issue of shares upon exercise of share options | 100 | 540 | - | - | - | - | - | 640 | - | 640 |
| Final 2006 dividend declared | - | - | - | - | - | - | (17,615) | (17,615) | - | (17,615) |
| Profit for the Period | - | - | - | - | - | 68,094 | - | 68,094 | 4,140 | 72,234 |
| Exchange realignment | - | - | - | - | 30,392 | - | - | 30,392 | - | 30,392 |
| At 31 December 2006 | 88,073 | 248,273 | 2,704 | 47,757 | 57,702 | 478,451 | - | 922,960 | 40,712 | 963,672 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended | |
|---|--------------------------|-------------|
| | 31 December | |
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES | (12,531) | 91,237 |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | 25,588 | (75,618) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | 1,496 | 388,145 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 14,553 | 403,764 |
| Cash and cash equivalents at beginning of Period | 871,454 | 523,864 |
| Effect of foreign exchange rate changes, net | 37,203 | 18,543 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 923,210 | 946,171 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 923,210 | 946,171 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. Accounting Policies

The condensed consolidated interim financial report for the six months ended 31 December 2007 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The accounting policies and basis of preparation adopted in the preparation of the interim financial report are the same as those used in the annual financial statements of the Group for the year ended 30 June 2007, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”, which also include Hong Kong Accounting Standards and interpretations) in current period for the first time as disclosed in note 2 below. This interim financial report should be read in conjunction with the 2007 annual report.

2. Impact of New and Revised Hong Kong Financial Reporting Standards

The following new and revised HKFRSs are adopted for the first time for the current period’s financial statements:

| | |
|------------------|--|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |

The adoption of the above new and revised HKASs, HKFRS and Interpretations has had no material impact on the accounting policies of the Group and the methods of computation in the interim financial report.

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group’s business and are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods. The Group has not early adopted these standards, amendments and interpretations for the six months ended 31 December 2007. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a material impact on the Group’s results and financial positions.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

3. Revenue

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

4. Segment information

The following table presents revenue and profit information for the Group's business segments.

| | Manufacturing | | Trading | | Consolidated | |
|--|------------------|----------------|------------------|---------------|------------------|-----------------|
| | Six months ended | | Six months ended | | Six months ended | |
| | 31 December | | 31 December | | 31 December | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Segment revenue: | | | | | | |
| Sales to external customers | <u>363,616</u> | <u>267,915</u> | <u>1,353</u> | <u>98,146</u> | <u>364,969</u> | <u>366,061</u> |
| Segment results | <u>115,416</u> | <u>104,868</u> | <u>41</u> | <u>1,219</u> | <u>115,457</u> | <u>106,087</u> |
| Interest income and unallocated income | | | | | 6,394 | 10,074 |
| Unallocated expenses | | | | | (4,073) | (6,639) |
| Finance costs | | | | | (15,384) | (16,555) |
| Profit before tax | | | | | <u>102,394</u> | <u>92,967</u> |
| Tax | | | | | <u>(21,317)</u> | <u>(20,733)</u> |
| Profit for the Period | | | | | <u>81,077</u> | <u>72,234</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

5. Finance costs

| | For the six months ended | |
|---|---------------------------------|--------------------|
| | 31 December | |
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest expense on: | | |
| Bank loans wholly repayable within five years | 15,384 | 16,555 |

6. Profit before tax

Profit before tax is arrived at after charging/(crediting):

| | For the six months ended | |
|--|---------------------------------|--------------------|
| | 31 December | |
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 59,192 | 132,200 |
| Employee benefits expense (including directors' remuneration) | 19,232 | 14,255 |
| Depreciation | 4,349 | 4,852 |
| Amortisation of prepaid land lease payments | 490 | 233 |
| Loss on disposal of items of property, plant and equipment | - | 25 |
| Amortisation of intangible assets | 2,045 | 1,429 |
| Interest income | (6,394) | (9,632) |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

7. Tax

| | For the six months ended | |
|--------------------------|---------------------------------|---------------|
| | 31 December | |
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Current – Mainland China | <u>21,317</u> | <u>20,733</u> |

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from Gui Zhou Sheng Ke Xue Ji Shu Ting (貴州省科學技術廳) on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. (“**GHMM**”), a subsidiary of the Company, was classified as one of the approved “High and New Technology Enterprises” in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland China Corporate Income Tax rate of 15% effective from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau in 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited (“**DCX**”), a subsidiary of the Company, was approved a Mainland China Corporate Income Tax rate of 15% effective from year 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entity established in western part of the Mainland China.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

8. Earnings per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share (“Share”) is based on the profit for the Period attributable to ordinary equity holders of the Company of HK\$73,204,000 (2006: HK\$68,094,000) and the weighted average of 880,734,000 (2006: 880,528,000) ordinary Shares in issue during the Period.

Diluted earnings per Share amount for the period ended 31 December 2007 have not been disclosed as there are no diluting events existed during the Period. The calculation of diluted earnings per Share amount for the period ended 31 December 2006 is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$68,095,000 and on 880,941,000 ordinary shares outstanding during that period.

9. Accounts and bills receivables

The Group’s trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group’s accounts and bills receivables are related to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

An ageing analysis of accounts and bills receivables as at the balance sheet date is as follows:

| | 31 December 2007 (Unaudited) HK\$’000 | 30 June 2007 (Audited) HK\$’000 |
|----------------|--|--|
| Within 90 days | 138,815 | 162,380 |
| 91 – 180 days | 108,137 | 63,893 |
| 181 – 365 days | 9,687 | 2,428 |
| Over 365 days | 145 | – |
| | <u>256,784</u> | <u>228,701</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

10. Accounts and bills payables

An ageing analysis of the accounts and bills payables as at the balance sheet date is as follows:

| | 31 December 2007 (Unaudited) HK\$'000 | 30 June 2007 (Audited) HK\$'000 |
|----------------|--|--|
| Within 90 days | 17,306 | 15,909 |
| 91 – 180 days | 3,819 | 1,946 |
| 181 – 365 days | 1,569 | 594 |
| Over 365 days | 1,337 | 1,179 |
| | <u>24,031</u> | <u>19,628</u> |

11. Share capital

The following is a summary of the movement in the authorized and issued share capital of the Company:

| | Number of Authorized Shares (<i>'000</i>) | Number of Issued Shares (<i>'000</i>) | Nominal value of issued Shares HK\$'000 |
|---|--|--|--|
| <i>Note</i> | | | |
| As at 1 July 2006 | 2,000,000 | 879,734 | 87,973 |
| Shares issued during the Period | (a) – | 1,000 | 100 |
| As at 31 December 2006, 30 June 2007 and 31 December 2007 | <u>2,000,000</u> | <u>880,734</u> | <u>88,073</u> |

Note:

- (a) During the six months ended 31 December 2006, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 1,000,000 Shares.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

12. Operating lease arrangements

(a) *As lessor*

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for original terms of one to four years.

At the balance sheet date, the Group had no future minimum lease receivables.

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for original terms ranging from two to ten years.

As at the balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 31 December | 30 June |
|---|--------------------|-----------|
| | 2007 | 2007 |
| | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 |
| Within one year | 1,645 | 2,426 |
| In the second to fifth years, inclusive | 13 | 180 |
| | 1,658 | 2,606 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
(continued)

13. Commitments

As at 31 December 2007, the Group had contracted commitments of HK\$11,312,000 (30 June 2007: HK\$33,207,000) in respect of purchases of technical know-how/patent.

In addition, as at 31 December 2007, the Group had contracted commitment of HK\$10,272,000 (30 June 2007: HK\$10,735,000) in respect of construction of property, plant and equipment.

14. Contingent liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities (30 June 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development (“R&D”), manufacture and sale of gynecological medicine and medicinal healthcare products in the People’s Republic of China (“PRC” or “China”). During the Period, the Group continued to achieve a positive return through its own and joint national distribution channels as well as extensive marketing network.

MARKET REVIEW

During the Period, the pharmaceutical industry in China had performed well. Developments in the pharmaceutical industry were gathering momentum and economic efficiency has continued to improve. In general, profits of pharmaceutical enterprises in China were encouraging, the level of concentration in the industry was enhanced and commercial sales and purchases were in steady growth. Demands from the three largest end-market segments, namely hospitals, Over-the-counter (“OTC”) drug stores and the third point of sale (including rural region and medical units in communities) were strong, prospects of export and import of pharmaceuticals remained positive. According to a forecast conducted by the Southern Medicine and Economy Research Institution of the State Food and Drug Administration of the PRC, the total production value of the pharmaceutical industry in China was approximately RMB 630 billion in 2007, representing an increase of about 17.8% to 18.5% as compared to approximately RMB 520 billion in 2006.

During the Period, the objectives of the State medical reform proposal (國家醫改方案) and the overall framework were finalized. The New Rural Cooperative Medical System (“NRCM”) (新型農村合作醫療) had been implemented in full scale after the trial run period. In response to the coming of a new market from NRCM, new administrative measures on new medical products registration had been introduced, resulting in a new round of Good Manufacturing Practice (“GMP”) applications activity. In addition, a series of policies on regulating the medical market environment and on the tender system that hospitals apply in their points of sale were introduced. As a result, disparity on internal developments within the sector became more apparent; divergence on profitability among enterprises widened. As such, less competitive pharmaceutical enterprises were forced to close down, and thus created a new space in market. Yet competition within the industry remained to be keen. The Board expects that the pharmaceutical industry will undergo another round of consolidation.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW

During the Period, the Group reported continuous steady growth across its core business segments, with prescription drugs, OTC drugs and feminine medicinal healthcare products all recording steady growth. It was encouraging to see that the Group had successfully achieved a balanced development in terms of business growth and risk control.

FINANCIAL PERFORMANCE

During the Period, the Group's turnover was approximately HK\$365.0 million, of which approximately HK\$363.6 million was derived from sales of the Group's own products, representing an increase of approximately 35.7% as compared with approximately HK\$267.9 million of the corresponding period in last year. **Prescription drugs** contributed approximately HK\$161.3 million in turnover during the Period, representing approximately 44.4% of the total sales of the Group's own products. **OTC drugs** recorded approximately HK\$76.7 million in turnover during the Period, accounting for approximately 21.1% of the total sales of the Group's own products and an approximately 35.7% increase over the corresponding period in last year. **Feminine medicinal healthcare products** recorded approximately HK\$125.5 million in turnover during the Period, representing approximately 34.5% of the total sales of the Group's own products and an approximately 108.2% increase over the corresponding period in last year. Approximately HK\$1.4 million of the Group's turnover during the Period was attributable to trading business.

Consolidation

During the Period, the Group continued the sale strategy of placing parallel focuses on prescription drugs, OTC drugs and feminine medicinal healthcare products. Such strategy includes further penetration into the hospital market and tapping into the rural pharmaceutical market and widening of the market share of the Group in healthcare products market. The Group had integrated the internal corporate structure to refine the production line, recruited more high-calibre expertise and expanded a professional management team. We continued to grasp opportunities in our steady development and exerted great effort on working out the balance between the pace of corporate development and quality and efficiency. These measures would enable healthy, stable and rapid development of the Group, thereby enhancing our economic efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prescription drugs

The Group continued its efforts in the improvement of its sales network and penetration of distribution channels, strengthened the build-up of a strong professional sales team by recruiting high-caliber professionals, system standardization and strengthening internal training programs and endeavored to devote more sales and marketing efforts to its key products through a number of means including academic and public welfare promotion. Meanwhile, the Directors believe that the Company's sales would be strengthened by offering a variety of product combinations, developing and introducing new products to the market, re-articulating the marketing and promotion strategies, and putting the Group's selling plans into practice.

OTC drugs

Fuke Zaizaowan (婦科再造丸) remains the Group's core branded product, complimented by other products that adapt to the market trend. The main promotional strategy of this product line lies in product branding and enhancement of the Group's corporate image through brand promotion and points of sale promotion. Meanwhile, with the changes taking place in pharmaceutical market, and the driving forces from the State NRCM, the new medical system in the community, the medical reform and the State medical insurances for all citizens, the Company will take measure to redesign the packages of the products to meet the markets' demand and recruit high-calibre professionals to the sales teams and establish professional marketing teams to enhance the infiltration rate of the Company's products in the third points of sale (including rural region and medical units in communities). The Group's market share in the OTC drugs market will strengthen and achieve better sales performance in this market.

Feminine medicinal healthcare products

Facial mask products under the Group's "Magic 美即" series will undergo another stage of research, development, production and sale. Cream mask, stretch mask, TU combination mask and DIY fresh mask in "Magic 美即" series have been introduced to the market during the Period. This in turn will strengthen the implementation of the leading brand strategy and differentiation strategy. With appropriate marketing and selling and promotion strategies, the Directors believe that sales of "Magic 美即" series products in famous nationwide hyper-store channels like Watsons, Carrefour and Wal-Mart will be enhanced, coverage of sales channels in major cities throughout the PRC will be more comprehensive and sales network will strengthen. Meanwhile, to meet the demands in Hong Kong and Macau, the Group has launched a specially-designed packing for "Magic 美即" series products. Results of this product in such markets are encouraging.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

AWARDS

During the Period, certain subsidiaries of the Company and certain products of the Group were accredited with various awards.

Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司), Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) received a medal and an honorable certificate from the large-scale commonweal campaigns organizing committee of national project of safe consumption for women and children's health products (全國婦幼健康消費放心工程大型公益活動組委會) as **the safest enterprise of national project of safe consumption of women and children's health products in year 2007** (全國婦幼健康消費放心工程最具放心企業).

Guizhou Hanfang Medicine Manufacture Co., Ltd. has received the honorable title, **Year 2007 industry efficiency improvement Award** (2007年工業提速增效獎), from the Economic & Trade Commission of Guiyang City (貴陽市經濟貿易委員會).

Guiyang De Chang Xiang Pharmaceutical Company Limited was awarded "**Enthusiasm in public welfare and innovative business company**" (熱心公益事業先進單位) by Bureau of Commerce of Guizhou Province (貴州省商務廳) and Guizhou Province Foreign Investment Enterprise Association (貴州省外商投資企業協會). It also received an honorable title, **Advance Company of safety production** (安全生產先進單位), from National Labour Union of Guiyang City (貴陽市總工會) and was awarded as **Advance enterprise in saving of energy and raw materials** (節約能源原材料先進企業) and **Advance enterprise of technology reform** (技術改造先進企業) by the Economic & Trade Commission of Guiyang City (貴陽市經濟貿易委員會).

Fudekang Foam (婦得康泡沫劑), produced by Guiyang De Chang Xiang Pharmaceutical Company Limited, was awarded **Year 2007 Guiyang City outstanding new product (environmental protection product) 2nd-Grade Award** (2007年貴陽市優秀新產品(環保產品)二等獎), **Fufang Yanlian Tablets** (複方岩連片), **Fufang Shihu Tablets** (複方石斛片), **Zhichuanlin aerosol** (止喘靈氣霧劑) were awarded as **Year 2007 Guiyang City outstanding new product (environmental protection product) 3rd-Grade Award** (2007年貴陽市優秀新產品(環保產品)三等獎); in-depth research and development scheme on Fuke Zaizaowan (婦科再造丸) was accredited as **Guiyang City Year 2007 science and technology 3rd-Grade Award** (貴陽市2007年科學技術獎三等獎).

"Magic 美即" facial mask product series produced by Guangzhou Magic Skincare Company Limited (廣州美即化妝品有限公司) was awarded **Watsons HWB Award 2007** in the Best Type of Facial Masks (面膜最佳品類大獎) by China Watsons because of its "Health, Wellness, Beauty and Style" features. The products also received the **Bronze Award** of the best sales and growth in facial mask series in Health and Beauty Competition 2007 held by Hong Kong Watsons and was awarded the **Best Mask Range for Summer** in the Summer Champions event organized by Hong Kong Watsons.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESEARCH AND DEVELOPMENT

During the Period, the Group's proprietary gynecological recuperation product, **Fuke Zaizao Capsules** (婦科再造丸膠囊) was well received by the hospital market and gained popularity among patients. Sales of this product was promising. Another proprietary product of the Group, **Fenfenzhong® Nano Silver Anti-inflammatory Gel** (分分鐘®納米銀婦女外用抗菌凝膠), a treatment for women who suffer from vaginitis and cervicitis, is ready to be launched into the market in the second half of the current financial year.

During the Period, 21 types of new products have been introduced into the market under the "Magic 美即" facial mask series, among which, 11 types are new forms of facial mask products, Cream masks, Stretch mask, TU combination mask and DIY fresh mask etc. The introduction of the new products under the "Magic 美即" series not only enriches the combination of "Magic 美即" series products but also strengthens the brand image of "Magic 美即" series as a **MG Facial Mask Center**.

PROSPECTS

The year of 2008 is the Olympic year. Driven by the economic effects of the Olympics, the growth of the pharmaceutical industry will be stimulated further by the good conditions of the economy. During the time of the Olympic Games, people from all around the world will gather in China. It provides a valuable opportunity to the pharmaceutical industry in China for international exchange and cooperation. With the pharmaceutical sector undergoing a substantial reform, the newly-established medical insurance system for all citizens and the basic coverage of NRCM, demand for medical healthcare from the mass will rise significantly. This constitutes a driving force for the growth of the pharmaceutical industry in 2008. As a result, the value of the sector as a whole will increase. It is expected that the currently excessive, tiny, scattered and disorderly structure of the Chinese medicine sector will be replaced by a more standardized, transparent and mature system, and thus medicine sector will be expected to gradually develop into a promising prospects and better appeal.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

The management is of the view that the medical sector in China is still in the low ebb compared to the world's medical industry as with the effect of macro-economic inflation of the State in 2008. The rate of concentration in this sector is very low and the incapability of corporate innovation in this sector remains a concern. Consequently, having a new medicine, particularly biological medicine with an exclusive intellectual property right and good curing effect will be indispensable in the keen market competition. Prospects for new biological medicine is encouraging. An important factor in deciding whether a pharmaceutical enterprise has core competitiveness depends on its capability on inventing new medicine. As competition among pharmaceutical enterprises in the medical sector intensifies, disparity on the internal development will be widened, medical sectors will undergo another round of consolidation through mergers and acquisitions, restructuring and consolidation. Trend for becoming a conglomerate in medical sector will be more prominent.

Hence, the Group will continue to optimize operational efficiency, fortify internal control systems in the second half of the current financial year. The Group will articulate an overall strategic plan for the Group's development and readjust the strategic plans step by step. Marketing promotion will be the main theme in the Group's strategy, good quality production will be the basis for the Company's development with the assistance from the corporate culture, to fortify internal control systems, to strengthen cost control and risk management through continuous internal consolidation, efficient resources reallocation and construction of a fully integrated operation platform. In the mean time, the Group is continuing to identify opportunities to acquire pharmaceutical enterprises which would contribute to the proprietary product, leading brand, distribution network and profits of the Group. Additional efforts will be made on identifying new products with exclusive intellectual property rights and good treatment effects or to merge with and acquire other pharmaceutical enterprises which have a strong capability on field research and development to broaden the strength and scale of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2007, the Group had unpledged cash and bank balances of approximately HK\$923.2 million (30 June 2007: approximately HK\$871.5 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of the Company was approximately 44.1% (30 June 2007: approximately 49.1%). Net current assets was approximately HK\$1,241.3 million (30 June 2007: approximately HK\$1,097.7 million) and the current ratio was maintained at the healthy level of approximately 8.1 (30 June 2007: approximately 9.0) as at 31 December 2007.

The finance costs of the Group for the Period amounted to approximately HK\$15.4 million (2006: approximately HK\$16.6 million), representing approximately 4.2% (2006: approximately 4.5%) of the Group's total turnover and a decrease of approximately HK\$1.2 million over the corresponding period in 2006.

COMMITMENTS

As at 31 December 2007, the Group had contracted commitments of HK\$11.3 million (30 June 2007: HK\$33.2 million) and HK\$10.3 million (30 June 2007: HK\$10.7 million) in respect of purchases of technical knowhow/patent and construction of property, plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any material contingent liabilities (30 June 2007: Nil).

BANK BORROWINGS

As at 31 December 2007, the Group had outstanding bank loans of approximately HK\$499.8 million from the banks in the PRC and Hong Kong (30 June 2007: approximately HK\$498.0 million), approximately 13.1% (30 June 2007: approximately 12.4%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 31 December 2007, the Group's bank borrowings were secured by (i) pledge over certain plant and machinery of the Group; (ii) pledge over certain prepaid land lease payments and buildings of the Group; (iii) pledge of equity interests of certain subsidiaries of the Company; and (iv) corporate guarantees given by certain subsidiaries of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

SEASONAL OR CYCLICAL FACTORS

During the Period, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly generated revenue and incurred costs in Renminbi. Renminbi did not fluctuate materially during the Period. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Period, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2007, the Group had a total of 1,053 employees (2006: 1,289), of whom 1,042 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Period, staff costs (including Directors' remunerations) amounted to approximately HK\$19,232,000 (2006: approximately HK\$14,255,000). Staff costs accounted for 5.3% of the Group's turnover (2006: 3.9%) during the Period. The Group participates in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (2006: Nil).

ADDITIONAL INFORMATION

SHARE OPTION SCHEME

The Company operates a share option scheme (“**Scheme**”), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

As at the date of this report, the total number of shares of the Company available for issue under the Scheme and any other share option scheme of the Group is 66,616,200, representing 7.56% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 29 November 2004, being the date of the 2004 annual general meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% general limit under the Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options to be granted to a Director, chief executive (as defined under the Listing Rules) or substantial shareholder (as defined under the Listing Rules) of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options to be granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, in 12-month period up to and including the date of grant, are subject to shareholders’ approval in a general meeting.

ADDITIONAL INFORMATION *(continued)*

SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for Shares under the Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of:

- (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and
- (iii) the nominal value of the shares of the Company.

No option was granted under the Scheme during the Period. No options granted were outstanding as at 1 July 2007 and 31 December 2007 respectively.

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SF Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | The Company/ name of associated corporation | Capacity | Number and class of securities/percentage in equity interest <i>(Note 1)</i> | Approximate percentage of interest |
|--------------------|---|---------------------------------------|---|--|
| Mr. Zhang Peter Y. | The Company | Interest of controlled corporation | 308,758,783 Shares (L) <i>(Note 2)</i> | 35.06% |
| Mr. Deng Jie | Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM") | Interest of controlled corporation | 5% (L) <i>(Note 3)</i> | 5% |

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Notes:

1. The letter "L" represents the Director's interests in the Shares and underlying Shares or, as the case may be, the equity interest of the Company or its associated corporations.
2. These 308,758,783 Shares were held by Bull's-Eye Limited ("BEL"), more than one-third of the issued share capital of which is beneficially owned by Mr. Zhang Peter Y.. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.
3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("GHKA"), which is beneficially owned as to 95% by Mr. Deng Jie and as to the remaining 5% by Mr. Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.

Save as disclosed above, as at 31 December 2007, none of the directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

No option was granted to the Directors under the Scheme during the Period and no options granted remained outstanding as at 31 December 2007.

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 31 December 2007, the following persons or entities, other than a director or chief executive of the Company, whose interests are disclosed in the paragraph headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

| Name of shareholder | Number of Shares <i>(Note 1)</i> | Nature of interest | Approximate percentage of interest |
|---|--|------------------------------------|---|
| BEL <i>(Note 2)</i> | 308,758,783 (L) | Beneficial owner | 35.06% |
| Liu Yu <i>(Note 3)</i> | 308,758,783 (L) | Interest of spouse | 35.06% |
| Haw Par Pharmaceutical Holdings Pte. Ltd <i>(Note 4)</i> | 183,532,400 (L) | Beneficial owner | 20.84% |
| Haw Par Corporation Limited <i>(Note 4)</i> | 183,532,400 (L) | Interest of controlled corporation | 20.84% |
| Jayhawk China Fund (Cayman), Ltd. <i>(Note 5)</i> | 80,806,000 (L) | Investment manager | 9.17% |

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE *(continued)*

| Name of shareholder | Number of Shares <i>(Note 1)</i> | Nature of interest | Approximate percentage of interest |
|--|-------------------------------------|-------------------------------------|--|
| McCarthy Kent C. <i>(Notes 5 and 6)</i> | 88,100,000 (L) | Interest of controlled corporations | 10.00% |
| Chartered Asset Management Pte. Ltd. | 70,692,000 (L) | Investment manager | 8.03% |
| Atlantis Investment Management Ltd. | 54,000,000 (L) | Investment manager | 6.13% |
| CAM-GTF Limited | 44,208,000 (L) | Beneficial owner | 5.02% |

Notes:

1. The letter “L” represents the person’s or the entity’s interests in Shares.
2. More than one-third of the issued share capital of BEL is beneficially owned by Mr. Zhang Peter Y. By virtue of the provisions of Divisions 2 and 3 of part XV of the SF Ordinance, Mr. Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL. Mr. Zhang Peter Y. is a director of BEL.
3. Ms. Liu Yu is the wife of Mr. Zhang Peter Y., an executive Director, who is deemed to be interested in the Shares and underlying Shares in which Mr. Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of part XV of the SF Ordinance.
4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly-owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd. is interested.
5. Jayhawk China Fund (Cayman), Ltd. is wholly-owned by McCarthy Kent C.. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, McCarthy Kent C. is deemed to be interested in all Shares in which Jayhawk China Fund (Cayman), Ltd. is interested.

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE *(continued)*

6. Buffalo Jayhawk China Fund, a company wholly-owned by McCarthy Kent C., held 7,294,000 shares in the Company. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, McCarthy Kent C. is deemed to be interested in all the Shares in which Buffalo Jayhawk China Fund is interested.

Save as disclosed above, as at 31 December 2007, no person, or entity other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with the code provisions as set out in Appendix 14 to the Listing Rules throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules ("**Model Code**"). Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's codes of conduct regarding securities transactions by Directors and senior management during the Period.

ADDITIONAL INFORMATION *(continued)*

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's facility agreement, which contain covenants requiring performance obligations of the controlling shareholders of the Company:

The Company entered into a facility agreement ("**Facility Agreement**") with certain financial institutions in Hong Kong and overseas on 30 June 2006. The Facility Agreement contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Deng Jie. The Facility Agreement is for a syndicated loan facility of up to HK\$445,000,000 for a term of three years, with an option at the end of the third year to extend the loan for an additional two years.

The Facility Agreement provides that so long as there remains any amount outstanding under the Facility Agreement: (1) Mr. Zhang Peter Y. shall remain to be the Chairman and the single largest shareholder of the Company; (2) Mr. Deng Jie, the Chief Executive Officer of the Company, shall remain to be a director; (3) Mr. Zhang and Mr. Deng shall together, directly or indirectly, maintain not less than 30% of the issued voting share capital of the Company; and (4) Mr. Zhang should deposit not less than 30% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Facility Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Facility Agreement.

On behalf of the Board
Zhang Peter Y.
Chairman

Hong Kong, 20 March 2008