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)

Interim Report
2008/2009

THE MISSION

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

CONTENTS

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 alternate)
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 alternate)

COMPANY SECRETARY

Mr. Chan Fan Shing *(FCCA, CPA)*

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

Unit 3405, 34th Floor
China Merchants Tower,
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Guiyang Branch, Jiaxiu Sub-branch
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 2008 ("**Period**") together with the comparative figures for the corresponding period in 2007 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	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**545,698**	364,969
Cost of sales		**(230,427)**	(143,532)
Gross profit		**315,271**	221,437
Other income and gain		**7,944**	10,876
Selling and distribution costs		**(135,422)**	(91,471)
Administrative expenses		**(50,872)**	(23,064)
Finance costs	*5*	**(8,760)**	(15,384)
PROFIT BEFORE TAX	*6*	**128,161**	102,394
Tax	*7*	**(32,612)**	(21,317)
PROFIT FOR THE PERIOD		**95,549**	81,077
ATTRIBUTABLE TO:			
Equity holders of the Company		**80,079**	73,204
Minority interests		**15,470**	7,873
		95,549	81,077
Dividend	*8*	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic	*9*	**HK9.1 cents**	HK8.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**175,039**	181,718
Prepaid land lease payments		**89,569**	89,834
Intangible assets		**380,846**	405,010
Deferred expenditure		**56,197**	56,383
Goodwill		**128,222**	128,222
Deposits and prepayments		**24,489**	24,571
Total non-current assets		**854,362**	885,738
CURRENT ASSETS			
Inventories		**28,291**	25,824
Accounts and bills receivables	*10*	**443,387**	363,664
Prepayments, deposits and other receivables		**152,710**	112,797
Cash and cash equivalents		**757,491**	816,298
Total current assets		**1,381,879**	1,318,583
CURRENT LIABILITIES			
Accounts and bills payables	*11*	**39,245**	28,719
Tax payable		**32,319**	34,999
Accrued liabilities and other payables		**77,296**	55,465
Bank loans		**373,109**	462,472
Total current liabilities		**521,969**	581,655
NET CURRENT ASSETS		**859,910**	736,928
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,714,272**	1,622,666
NON-CURRENT LIABILITIES			
Bank loans		**–**	2,146
Deferred tax liabilities		**92,592**	89,020
Total non-current liabilities		**92,592**	91,166
Net assets		**1,621,680**	1,531,500
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*12*	**88,073**	88,073
Reserves		**1,293,954**	1,218,549
		1,382,027	1,306,622
Minority interests		**239,653**	224,878
Total equity		**1,621,680**	1,531,500

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From 1 July 2008 to 31 December 2008

	Attributable to equity holders of the Company									
	Issued capital (Unaudited) *HK$'000*	**Share premium account (Unaudited) *HK$'000***	**Asset revaluation reserve (Unaudited) *HK$'000***	**Statutory reserve fund (Unaudited) *HK$'000***	**Exchange fluctuation reserve (Unaudited) *HK$'000***	**Retained profits (Unaudited) *HK$'000***	**Proposed final dividend (Unaudited) *HK$'000***	**Total (Unaudited) *HK$'000***	**Minority Interests (Unaudited) *HK$'000***	**Total equity (Unaudited) *HK$'000***
At 1 July 2008	88,073	248,273	11,113	76,680	244,609	637,874	–	1,306,622	224,878	1,531,500
Profit for the Period	–	–	–	–	–	80,079	–	80,079	15,470	95,549
Exchange realignment	–	–	–	–	(4,674)	–	–	(4,674)	(695)	(5,369)
At 31 December 2008	**88,073**	**248,273**	**11,113**	**76,680**	**239,935**	**717,953**	**–**	**1,382,027**	**239,653**	**1,621,680**

From 1 July 2007 to 31 December 2007

	Attributable to equity holders of the Company									
	Issued capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Asset revaluation reserve (Unaudited) *HK$'000*	Statutory reserve fund (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	Retained profits (Unaudited) *HK$'000*	Proposed final dividend (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*	Minority Interests (Unaudited) *HK$'000*	Total equity (Unaudited) *HK$'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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH INFLOW/(OURFLOW) FROM OPERATING ACTIVITIES	**33,249**	(12,531)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(405)**	25,588
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	**(89,363)**	1,496
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(56,519)**	14,553
Cash and cash equivalents at beginning of Period	**816,298**	871,454
Effect of foreign exchange rate changes, net	**(2,288)**	37,203
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**757,491**	923,210
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**757,491**	923,210

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. Accounting Polices

The condensed consolidated interim financial statements for the six months ended 31 December 2008 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 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 30 June 2008, 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 the Period for the first time as disclosed in note 2 below. These interim financial statements should be read in conjunction with the 2008 annual financial statements of the Group for the year ended 30 June 2008.

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

The following new and revised HKFRSs were adopted for the first time for the Period's financial statements:

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new and revised interpretations has had no material impact on the accounting policies of the Group and the methods of computation in the interim financial statements.

Certain new standards, amendments and interpretations to existing standards which have been published are relevant to the Group's business and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods. The Group has not early adopted these standards, amendments and interpretations for the six months ended 31 December 2008. 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 for the Period.

3. Turnover

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 Six months ended 31 December		Trading Six months ended 31 December		Consolidated Six months ended 31 December	
	2008	2007	**2008**	2007	**2008**	2007
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**528,697**	363,616	**17,001**	1,353	**545,698**	364,969
Segment results	**139,445**	115,416	**1,756**	41	**141,201**	115,457
Interest income and unallocated income					**3,103**	6,394
Unallocated expenses					**(7,383)**	(4,073)
Finance costs					**(8,760)**	(15,384)
Profit before tax					**128,161**	102,394
Tax					**(32,612)**	(21,317)
Profit for the Period					**95,549**	81,077

5. Finance costs

	For the six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**8,760**	15,384

6. Profit before tax

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

	For the six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**92,262**	59,192
Employee benefits expense (including directors' remuneration)	**21,751**	19,232
Depreciation	**6,465**	4,349
Amortisation of prepaid land lease payments	**675**	490
Amortisation of intangible assets	**20,664**	2,045
Interest income	**(3,103)**	(6,394)

7. Tax

	For the six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**32,612**	21,317

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2007: 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 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 years 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entities established in western part of Mainland China.

8. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2008 (2007: Nil).

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

The calculation of basic earnings per share of the Company ("Share") is based on the profit for the Period attributable to ordinary equity holders of the Company of HK$80,079,000 (2007: HK$73,204,000) and the weighted average of 880,734,400 (2007: 880,734,400) ordinary Shares in issue during the Period.

Diluted earnings per Share amount for the Period has not been disclosed as no diluting events existed during the Period.

10. Accounts and bills receivable

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 minimise 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 2008 (Unaudited) ***HK$'000***	30 June 2008 (Audited) *HK$'000*
Within 90 days	**279,598**	246,285
91 – 180 days	**145,159**	98,329
181 – 365 days	**18,630**	19,050
	443,387	363,664

11. Accounts and bills payables

The ageing analysis of the accounts and bills payable as at the balance sheet date is as follows:

	31 December 2008 (Unaudited) *HK$'000*	30 June 2008 (Audited) *HK$'000*
Within 90 days	**35,751**	23,936
91 – 180 days	**2,030**	2,360
181 – 365 days	**917**	1,226
Over 365 days	**547**	1,197
	39,245	28,719

12. Share capital

	31 December 2008 (Unaudited) *HK$'000*	30 June 2008 (Audited) *HK$'000*
Authorised:		
2,000,000,000 (30 June 2008: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
880,734,400 (30 June 2008: 880,734,400) ordinary shares of HK$0.10 each	**88,073**	88,073

13. Operating lease commitments

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 years.

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

	31 December 2008 (Unaudited) ***HK$'000***	30 June 2008 (Audited) *HK$'000*
Within one year	**2,100**	1,256
In the second to fifth years, inclusive	**804**	107
	2,904	1,363

14. Commitments

As at 31 December 2008, the Group had contracted commitments of HK$22,700,000 (30 June 2008: HK$35,763,000) in respect of purchases of technical knowhow/patent.

In addition, as at 31 December 2008, the Group had contracted commitments of HK$10,895,000 (30 June 2008: HK$11,927,000) in respect of the purchases of and construction of plant and equipment.

15. Contingent liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities (30 June 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture and sale of gynecological medicine, feminine medicinal healthcare products and bio-pharmaceutical 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 PRC pharmaceutical industry still maintained a steady development trend in spite of the financial crisis that swept across the world. This is because of the citizen's strong demand for medicine, and also because China was in its ascending course towards a comprehensive health care system, and the State finance provided strong support to the expansion of pharmaceutical market. According to a primary statistics conducted by the Southern Medicine and Economy Research Institution of the States Food and Drug Administration ("**SFDA**") of the PRC, the total production value of the pharmaceutical industry in China was approximately RMB800 billion in 2008, representing an increase of 27.0% over 2007, while it was RMB630 billion in 2007 and RMB520 billion in 2006.

During the Period, the PRC pharmaceutical industry demonstrated five main characteristics: (1) the medical reforms drove the market demand, extending the room for market development; (2) the market potential in rural areas was realised and the key to develop the rural market was to establish a medicine delivery system; (3) the competition within the markets of generic drugs and general medicine grew fiercer; (4) the task to cut costs and improve efficiency remained prominent; and (5) the policies boosted the structural adjustment of the pharmaceutical industry, highlighting the features of "integration, promotion and competition".

Two out of the five points mentioned above were especially worth noticing, first of which was that the prosperity in rural markets and retail markets was gaining attention from pharmaceutical enterprises. Public figures showed that in 2008, the coverage of PRC New Rural Cooperative Medical Systerm ("**NRCMS**") reached a population of 814,000,000 with a contribution standard of not lower than RMB100 per person. This included 420,000,000 people in cities and towns with contribution standards of RMB180 and RMB1,400~1,500 per person respectively, which brought at least RMB150 billion of direct capital growth to the medical market. The national financial expenditure will further incline towards rural areas, in particular, after the third Plenary Session of the 17th Communist Party of China Central Committee, and the huge potential of medical consumption from the rural market will surface gradually. In addition, the new medical reforms will, to a large extent, push the progress of the medical industry, and boost the pharmaceutical market demand for nearly RMB200 billion. These capital put forward medical demand and it is foreseeable that the PRC pharmaceutical market will continue to grow in future. The second point was that, as the pharmaceutical industry became more and more concentrated, enterprises with unique product resources and marketing advantages gained competitiveness, and the speed of weak players being eliminated from the industry accelerated, and mergers and acquisitions will be the way for the expansion of enterprises.

The pharmaceutical market was still in transition during the Period with a lot of opportunities and challenges.

BUSINESS REVIEW

During the Period, the Group reported continuous steady growth across its core business segments, with steady growth in prescription drugs, over-the-counter ("**OTC**") drugs and feminine medicinal healthcare products. It was encouraging to see that the Group 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$545.7 million, of which approximately HK$528.7 million was derived from sales of the Group's own products, representing an increase of approximately 45% as compared to approximately HK$363.6 million of the corresponding period last year. Prescription drugs contributed approximately HK$236.3 million in turnover during the Period, representing approximately 44.7% of the total sales of the Group's own products. OTC drugs recorded approximately HK$114.4 million in turnover during the Period, accounting for approximately 21.6% of the total sales of the Group's own products and an approximately 49.2% increase over the corresponding period last year. Feminine medicinal healthcare products recorded approximately HK$178.0 million in turnover during the Period, representing approximately 33.7% of the total sales of the Group's own products and an approximately 41.8% increase over the corresponding period last year. Approximately HK$17.0 million of the Group's turnover during the Period was attributable to trading business.

Market Performance

During the Period, the Group continued the sales strategy of placing parallel focus on prescription drugs, OTC drugs and feminine medicinal healthcare products. At the same time, the Group expanded its business reach into the bio-pharmaceutical region rapidly. This has helped to strengthen the sales ability of two types of State category one new medicines and enhance the quality of the medicine. We continued to further expand hospital market and rural market with strong focus on widening the market share of the Group in healthcare products market. The Group has further integrated the internal corporate structure to strictly control the production cost, recruited more high-calibre expertise and strengthened the key professional management team. We continued to grasp opportunities in our steady development and exerted great effort on working out the quality and efficiency of corporate development. These measures would enable healthy, stable and rapid development of the Group, thereby enhancing our economic and social efficiency.

Prescription drugs

Since the State policy was relatively flexible, the Group fully made good use of this opportunity to enhance the promotion in the market and further stabilised the sales and marketing of key products in hospitals. At the same time, the Group used its knowledge-based marketing skills with the help from sales network of existing hospitals to gradually increase the sales volume of two types of State category one new medicines "**Yi Fu**（**易孚**）" and "**Yi Bei**（**易貝**）" and achieved the established sales plan with favorable sales result.

FINANCIAL PERFORMANCE *(continued)*

Market Performance *(continued)*

OTC drugs

Since the State increased its input and involvement in the rural pharmaceutical market and community-based medical and health care issues, the Group grasped this chance to form a series of products – **"Fuke Zaizaowan"(婦科再造丸)** of "De Chang Xiang" ("DCX")(德昌祥) as core product and other market-suited products as supplementary products, which was rural and community based. The Group further strengthened the status of district sales market by increasing its efforts in advertising, package marketing and channel and ultimate promotion. This also improved the brand image of our products, raised the popularity of our Company as well as the sales volume of our products.

Feminine medicinal healthcare products

Facial mask products under the Group's "**Magic 美即**" series underwent a further stage of research, development, production and sale. The Group not only continued to strengthen the market status of the existing facial mask products of "**Magic 美即**", but also the market promotion of Cream masks, Stretch masks, TU combination masks, DIY fresh masks and watery masks and released the new "**Magic 美即**" products such as eye masks. This in turn strengthened the implementation of the leading brand strategy and differentiation strategy of "**Magic 美即**" products, and increased its market share, thus enhanced its market status. Through closer strategic partnership with famous nation-wide retail channels such as Watsons, Carrefour and Wal-Mart, the Group has extended the sales network in key regional markets of the PRC, which in turn further increased the points of sales and increased the sales result.

AWARDS

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

Each of Guizhou Hanfang Medicine Manufacture Co., Ltd.(貴州漢方製藥有限公司) and 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 China Women and Children Affairs Development Centre(中國婦女兒童事業發展中心) as "China Women and Children's Choice of Brand Product"(中國婦女兒童喜愛的品牌產品).

"Yeosure Natural Medicine Lotion and Toilet Tower"(日舒安洗液、濕巾) of Guizhou Hanfang Medicine Manufacture Co., Ltd.(貴州漢方製藥有限公司) and "Fuke Zaizaowan" of De Chang Xiang Pharmaceutical Company Limited(貴陽德昌祥藥業有限公司) were selected as a "Selected Purchasing Product of Quality Women and Children's Products in China"(中國名優婦女兒童用品採購指定產品).

AWARDS *(continued)*

Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）received the honor of "Ten Major Pharmaceutical Enterprises in the Guiyang City"（貴陽市十家重點製藥企業）from the Guiyang City Government（貴陽市人民政府）and its product "Yeosure Natural Medicine Lotion"（日舒安洗液）received the honor of "20 Pharmaceutical Brand Product of Guiyang"（貴陽市20個藥業品牌產品）.

The "Fuke Zaizaowan"（婦科再造丸）of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）received the honor of "20 Pharmaceutical Brand Product of Guiyang"（貴陽市20個藥業品牌產品）.

The "Magic 美即" facial mask product series of Guangzhou Magic Skincare Company Limited（廣州美即化妝品有限公司）was awarded as "Second Runner-up of Top 10 Most Associated Popular Brands by Netizens using Face Mask"（面膜網民對大眾品牌聯想TOP 10之第三名）in "Baidu Ranking of Second Quarter in 2008 – Cosmetic Division"（2008年Q2百度風雲榜化妝品行業排名）because of its "Health, Wellness, Beauty and Style" features. The products also received the "Silver Prize in the Best Selling Face Masks" at 2008 HK Watson Health and Beauty Award.

PRODUCTION FACILITIES

We have been granted an approval by Guizhou Food and Drug Administration（貴州省食品藥品監督管理局）for the high-tech bio-pharmaceutical production plant for the Group's bio-pharmaceutical product – the State category one new biological medicine – "**Human Nerve Growing Factor Injection**"（**人神經生長因子注射液**）. Application has been made to the SFDA for a GMP (Good Manufacturing Practice) certification. It is expected that the certification will be granted in the second half of 2009 and production will commence at that time.

Guiyang De Chang Xiang Pharmaceutical Company Limited was recognised as one of the "**High and New Technology Enterprises**"（**高新技術企業**）by 4 government departments including the Bureau of Technology of Guizhou Province（貴州省科技廳）and recognized as "**Provincial Enterprise Technology Centre**"（**省級企業技術中心**）by 6 government departments including the Economy and Trade Committee of Guizhou Province（貴州省經濟貿易委員會）.

PROSPECTS

In 2009, global economy suffers a serious downturn due to the financial crisis. China also needs to face the threat from cyclical adjustment of the economy. However, with the proactive promotion of the medical and public health system reform in the PRC, higher market standardization, continuous development of national economy, population growth, urbanization and aging population, the demand for medical products should keep rising, thus the pharmaceutical industry in China is expected to have a substantial development.

PROSPECTS *(continued)*

The Directors believe that effect from the slowdown of Chinese macroeconomic growth is not significant. Unlike other various industries, cyclical adjustment of the economy should not bring a material effect to pharmaceutical business. Pharmaceutical industry in China is the "harbor" in the global financial storm for three reasons: first, China has a sizable domestic market with continuous demand for pharmaceutical products; second, under the backdrop of medical reform, the input of Chinese government is increasing which results in market expansion. In the implementation terms of the government's new medical reform, government departments of various levels are expected to input RMB850 billion in three years. In other words, there will be in average RMB283.3 billion injected per year. Besides, according to the Report of China Pharmaceutical Technology and Production Development Strategic Research (《中國醫藥科技與產業發展戰略研究報告》), Chinese government endeavors to raise the scale of medical expenditure to 6% with market scale of RMB1,500 billion by 2010, while in 2020, the scale of medical expenditure will further increase to 10% with market scale of RMB4,000 billion. Third, the medical care and healthcare sector should be a major focus in the RMB4,000 billion worth plan of the Chinese government to stimulate the domestic demand. The capital injection arranged from the State would not be less than RMB300 billion.

Besides, according to the latest information from IMS (world's leading pharmaceutical consultant and research company), in the first half of 2008, the scale of domestic hospitals market was RMB90.8 billion, representing an increase of 27.7% compared to corresponding period of 2007. The significant increase drove the growth of the pharmaceutical market of hospital. Meanwhile, the scale of the third-tier (i.e. rural) pharmaceutical market expanded rapidly, provoking strong growth of the entire local pharmaceutical market.

Since 2007 the Chinese government has imposed a series of policies relating to each procedure in the pharmaceutical industry such as production, logistics and sales for consolidation and regulation, aiming to raise the entire standard of local pharmaceutical production and bring basic facilities and management in line with international practice in a higher speed. At the same time, the State will increase its financial support in medical insurance as well as the investment in bio-pharmaceutial innovation.

For these reasons, the Directors believe that in 2009, Chinese pharmaceutical market will continue its strong growth, pharmaceutical production will experience a faster upgrading process and the speed of elimination of players among the industry will increase. Regulated development will dominate the pharmaceutical industry whereas mergers and acquisitions and restructuring will be the highlight of pharmaceutical industrial reform and development in the future.

PROSPECTS *(continued)*

In respect of this, in the second half of this financial year, the Group will focus on marketing, with emphasis on cost control and quality production so as to exert great effort on fostering "**Human Nerve Growing Factor Injection**" to be our third State category one new biological medicine in the sales market. We will endeavor to improve the profitability and risk resistance of the Company by continuing to put our efforts in internal consolidation to conduct strategic adjustment when appropriate, enhance establishment of corporate culture, effectively integrate resources, keep optimizing business process, and strengthen the formation of integration operation platform.

Besides, since the financial crisis, several large local pharmaceutical enterprises are in the stage of adaptation after mergers and acquisitions or cease from development due to diversification. This offers more chances for the Group to carry out mergers and acquisitions to become bigger and stronger. Hence, the Group will continue to carry out mergers and acquisitions by selecting pharmaceutical enterprises that will be able to compliment and contribute to our products, brands, sales network and profitability, especially those with strong R&D capability, brand advantages, independent intellectual property rights and significant new pharmaceutical products. Through the mergers and acquisitions, the Group could further expand in terms of capacity and scale, maximise the interests of shareholders and create greater wealth for the society.

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 2008 the Group had unpledged cash and bank balances of approximately HK$757.5 million (30 June 2008: approximately HK$816.3 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of the Company was approximately 27.0% (30 June 2008: approximately 35.6%). Net current assets was approximately HK$859.9 million (30 June 2008: approximately HK$736.9 million) and the current ratio was maintained at a healthy level of approximately 2.6 (30 June 2008: approximately 2.3) as at 31 December 2008.

The finance costs of the Group for the Period amounted to approximately HK$8.8 million (2007: approximately HK$15.4 million), representing approximately 1.6% (2007: approximately 4.2%) of the Group's total turnover and a decrease of approximately HK$6.6 million over the corresponding period in 2007.

COMMITMENTS

As at 31 December 2008, the Group had contracted commitments of HK$22.7 million (30 June 2008: HK$35.8 million) and HK$10.9 million (30 June 2008: HK$11.9 million) in respect of purchases of technical knowhow/patent and the purchases of and construction of plant and equipment, respectively.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities (30 June 2008: Nil).

BANK BORROWINGS

As at 31 December 2008, the Group had outstanding bank loans of approximately HK$373.1 million from the banks in the PRC and Hong Kong (30 June 2008: approximately HK$464.6 million), 100% (30 June 2008: approximately 99.5%) 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 2008, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) 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.

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 2008, the Group had a total of 2,552 employees (2007: 1,053), of whom 2,541 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$21,751,000 (2007: approximately HK$19,232,000). Staff costs accounted for 4.0% of the Group's turnover (2007: 5.3%) 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 (2007: Nil).

ADDITIONAL INFORMATION

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

As at 31 December 2008, 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 *(Note 1)*	Approximate percentage of interest of the Company/ associated corporation
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	308,758,783 Shares (L) *(Note 2)*	35.06
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("**GHXM**")	Interest of controlled corporation	5% (L) *(Note 3)*	5

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 Division 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 Division 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 2008, 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 Division 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.

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 2008, the following persons or entities, other than a Director or chief executive of the Company whose interests are disclosed in the paragraphs headed "Director's 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** *(Note 1)*	**Nature of interest**	**Approximate percentage of interest of the Company**
BEL *(Note 2)*	308,758,783 (L)	Beneficial owner	35.06
Liu Yu *(Note 3)*	308,758,783 (L)	Interest of spouse	35.06
Haw Par Pharmaceutical Holdings Pte. Ltd *(Note 4)*	183,532,400 (L)	Beneficial owner	20.84
Haw Par Corporation Limited *(Note 4)*	183,532,400 (L)	Interest of controlled corporation	20.84
Jayhawk China Fund (Cayman) Ltd. *(Note 5)*	61,029,000 (L)	Investment manager	6.93
Jayhawk Private Equity Fund II, L.P. *(Note 6)*	44,439,000 (L)	Investment manager	5.05
McCarthy Kent C. *(Note 5, 6, and 7)*	106,418,000 (L)	Interest of controlled corporations	12.08
Chartered Asset Management Pte. Ltd.	70,692,000 (L)	Investment manager	8.03
Atlantis Investment Management Ltd.	61,684,000 (L)	Investment manager	7.00
CAM-GTF Limited	44,208,000 (L)	Beneficial owner	5.02

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

Notes:

1. The letter "L" represents the person's or the entity's interests in Shares of the Company.

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 Division 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, and is deemed to be interested in the Shares and underlying Shares in which Mr. Zhang Peter Y. is interested under the provisions of Division 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 Division 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 Division 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.

6. Jayhawk Private Equity Fund II, L.P. is wholly-owned by McCarthy Kent C.. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, McCarthy Kent C. is deemed to be interested in all Shares in which Jayhawk Private Equity Fund II, L.P. is interested.

7. Jayhawk Investment, L.P., a company wholly-owned by McCarthy Kent C., held 4,522,000 Shares. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, McCarthy Kent C. is deemed to be interested in all the Shares in which Jayhawk Investment, L.P. is interested.

Save as disclosed above, as at 31 December 2008, 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 of the Code on Corporate Governance Practices 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 under the Model Code for Securities Transactions by Directors of Listed Issuers 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 code 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 loan agreements, 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.

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. There was not any breach of the above specific performance obligations during the Period and as at the date of this report.

By order of the Board
Hua Han Bio-Pharmaceutical Holdings Limited
Zhang Peter Y.
Chairman

Hong Kong, 27 February 2009