



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 2012/2013



THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in traditional Chinese medicine (including mainly gynecological medicine) as well as bio-pharmaceutical products and bio-technology in the People's Republic of China.

CONTENTS

Corporate Information	1
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Cash Flow Statement	8
Notes to Condensed Consolidated Interim Financial Statements	9
Management Discussion and Analysis	22
Additional Information	36

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (*Chairman*)
Mr. Deng Jie (*Chief Executive Officer*)
Mr. Long Xian Feng
Mr. Zhou Chong Ke

Non-Executive Directors

Mr. Wee Ee Lim
(*Ms. Lim Seok Bin Zann 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

Mr. Hon Yiu Ming, Matthew
(*Chairman of audit committee*)
Professor Tso Wung Wai
Professor Kung Hsiang Fu
Mr. Tarn Sien Hao

REMUNERATION COMMITTEE

Mr. Hon Yiu Ming, Matthew
(*Chairman of remuneration
committee*)
Professor Tso Wung Wai
Professor Kung Hsiang Fu
Mr. Deng Jie
Mr. Wee Ee Lim
(*Ms. Lim Seok Bin Zann as
his alternative*)

NOMINATION COMMITTEE

Professor Kung Hsiang Fu
(*Chairman of nomination
committee*)
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew
Mr. Deng Jie
Mr. Wee Ee Lim
(*Ms. Lim Seok Bin Zann as
his alternative*)

COMPANY SECRETARY

Mr. Wong Ming Chun
(*CPA, ACCA*)

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

Industrial and Commercial Bank of
China (Asia) Limited

Bank of China
Guiyang Branch, Jiaxiu Sub-branch

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners
40th 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

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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 condensed consolidated interim financial statements of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 31 December 2012 (“**Period**”) together with the comparative figures for the corresponding period in 2011 and the relevant explanatory notes as set out below. The condensed consolidated interim financial statements 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	
		2012	2011
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	1,026,297	895,281
Cost of sales		(278,707)	(247,497)
Gross profit		747,590	647,784
Other income and gains		13,006	8,839
Selling and distribution expenses		(445,361)	(356,566)
Administrative expenses		(38,590)	(46,377)
Share-based payments		(29,400)	(22,650)
Gain on disposal of available-for-sale investments		19,534	–
Share of profit of an associated company		–	20,643
Finance costs	5	(1,293)	(1,155)
Profit before taxation		265,486	250,518
Taxation	6	(50,245)	(50,662)
Profit for the period	7	215,241	199,856
Dividend	8	–	–

CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD		
ATTRIBUTABLE TO:		
Owners of the Company	205,516	170,519
Non-controlling interests	<u>9,725</u>	<u>29,337</u>
	<u>215,241</u>	<u>199,856</u>
EARNINGS PER SHARE	9	
Basic	<u>HK8.5 cents</u>	<u>HK8.5 cents</u>
Diluted	<u>HK8.1 cents</u>	<u>HK8.2 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>215,241</u>	<u>199,856</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences arising from translation of foreign operations	49,965	66,046
Share of other comprehensive income of an associate	<u>–</u>	<u>12,522</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>265,206</u></u>	<u><u>278,424</u></u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the Company	248,532	246,972
Non-controlling interests	<u>16,674</u>	<u>31,452</u>
	<u><u>265,206</u></u>	<u><u>278,424</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2012 (Unaudited) <i>Notes</i>	30 June 2012 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	319,393	322,281
Prepaid lease payments	29,503	29,707
Intangible assets	175,636	192,711
Deferred expenditure	98,723	97,051
Available-for-sale investments	–	270,451
Goodwill	110,273	110,273
Interest in associates	179,265	179,059
Deposits	443,783	436,265
Deferred tax assets	4,894	4,816
	<u>1,361,470</u>	<u>1,642,614</u>
CURRENT ASSETS		
Inventories	76,754	42,543
Trade and bills receivables	618,654	442,723
Other receivables, deposits and prepayments	64,766	174,552
Tax recoverable	–	6,634
Bank balances and cash	2,671,218	2,095,315
	<u>3,431,392</u>	<u>2,761,767</u>
CURRENT LIABILITIES		
Trade payables	48,602	41,639
Other payables and accrued expenses	41,649	104,463
Obligation under a finance lease	83	83
Bank borrowings	32,195	31,650
Tax payable	88,943	54,768
Dividend payable	208,113	–
	<u>419,585</u>	<u>232,603</u>
NET CURRENT ASSETS	<u>3,011,807</u>	<u>2,529,164</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u><u>4,373,277</u></u>	<u><u>4,171,778</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

	31 December 2012 (Unaudited) HK\$'000	30 June 2012 (Audited) HK\$'000
CAPITAL AND RESERVES		
Share capital	247,753	241,033
Reserves	3,845,645	3,665,434
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
	4,093,398	3,906,467
NON-CONTROLLING INTERESTS	199,877	183,203
TOTAL EQUITY	4,293,275	4,089,670
NON-CURRENT LIABILITIES		
Obligation under finance leases	79	120
Deferred tax liabilities	60,034	59,992
Deferred income	19,889	21,996
	80,002	82,108
	4,373,277	4,171,778

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
	Share capital	Share premium	Asset revaluation reserve	Statutory reserve	Exchange reserve	Share option reserve	Other reserve	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2012	241,033	912,737	36,564	100,781	358,811	52,374	(8,410)	2,010,109	202,468	3,906,467	183,203	4,089,670
Profit for the Period	-	-	-	-	-	-	-	205,516	-	205,516	9,725	215,241
Exchange difference arising from translation of foreign operations	-	-	-	-	43,016	-	-	-	-	43,016	6,949	49,965
Total comprehensive income for the Period	-	-	-	-	43,016	-	-	205,516	-	248,532	16,674	265,206
Issue of shares upon exercise of share options	6,720	127,404	-	-	-	(17,012)	-	-	-	117,112	-	117,112
Recognition of equity-settled share-based payments	-	-	-	-	-	29,400	-	-	-	29,400	-	29,400
Final dividend declared	-	-	-	-	-	-	-	(5,645)	(202,468)	(208,113)	-	(208,113)
At 31 December 2012	<u>247,753</u>	<u>1,040,141</u>	<u>36,564</u>	<u>100,781</u>	<u>401,827</u>	<u>64,762</u>	<u>(8,410)</u>	<u>2,209,980</u>	<u>-</u>	<u>4,093,398</u>	<u>199,877</u>	<u>4,293,275</u>
At 1 July 2011	197,433	1,122,131	26,184	100,781	321,679	13,987	(8,410)	1,341,706	67,127	3,182,618	143,462	3,326,080
Profit for the Period	-	-	-	-	-	-	-	170,519	-	170,519	29,337	199,856
Other comprehensive income (expense) for the Period	-	-	-	-	71,714	-	4,739	-	-	76,453	2,115	78,568
Total comprehensive income (expenses) for the Period	-	-	-	-	71,714	-	4,739	170,519	-	246,972	31,452	278,424
Issue of shares upon exercise of share options	3,428	38,554	-	-	-	(13,987)	-	-	-	27,995	-	27,995
Recognition of equity-settled share-based payments	-	-	-	-	-	22,650	-	-	-	22,650	-	22,650
Final dividend declared	-	-	-	-	-	-	-	(1,166)	(67,127)	(68,293)	-	(68,293)
At 31 December 2011	<u>200,861</u>	<u>1,160,685</u>	<u>26,184</u>	<u>100,781</u>	<u>393,393</u>	<u>22,650</u>	<u>(3,671)</u>	<u>1,511,059</u>	<u>-</u>	<u>3,411,942</u>	<u>174,914</u>	<u>3,586,856</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	137,808	357,531
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	274,862	(433,349)
NET CASH INFLOW FROM FINANCING ACTIVITIES	117,616	26,840
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	530,286	(48,978)
Cash and cash equivalents at beginning of period	2,095,315	1,456,597
Effect of foreign exchange rate changes, net	45,617	37,187
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,671,218	1,444,806
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,671,218	1,444,806

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2012 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 (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**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 2012, 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 statements should be read in conjunction with the 2012 annual financial statements of the Group for the year ended 30 June 2012.

2. Application of new and revised Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) issued a number of new and revised standards, amendments to standards and interpretations (“**new and revised HKFRSs**”) that are first effective for the current accounting period of the Group, as follow.

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

HKAS 12 (Amendments) Deferred Tax — Recovery of Underlying Assets

The adoption of the new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

2. Application of new and revised Hong Kong Financial Reporting Standards (continued)

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 2013 or later periods. The Group has not early adopted these standards, amendments and interpretations during the Period. 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

Turnover represents the amounts received and receivable from the manufacturing, sale and trading of pharmaceutical products during the Period. The following is an analysis of the Group's turnover:

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing and sale of pharmaceutical products	1,011,390	748,481
Trading of pharmaceutical products	14,907	146,800
	1,026,297	895,281
	<i>(Note)</i>	

Note: The turnover amounts represent sales and trading of pharmaceutical products before netting off the rebates.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

4. Segment information

The Group's operating and reportable segments under HKFRS 8 are as follows:

Pharmaceutical products — the manufacturing, sale and trading of Chinese and Western pharmaceutical products, mainly including gynecological medicines, bio-pharmaceutical and bio-technological products in the People's Republic of China ("PRC").

Segment revenues, results, assets and liabilities

The Group has only one single category of products, namely pharmaceutical products and accordingly no further segment information is presented.

Geographical information

No geographical information is presented as the Group's business is principally carried out in the PRC and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

4. Segment information (continued)

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A	<u>275,841</u>	<u>156,872</u>

5. Finance costs

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on:		
— bank borrowings repayable within five years	1,264	1,128
— finance lease charges	<u>29</u>	<u>27</u>
Total borrowing costs charged to the condensed consolidated income statement	<u>1,293</u>	<u>1,155</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

6. Taxation

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC Enterprise Income Tax ("EIT")		
— Current period	<u>50,245</u>	<u>50,662</u>

Hong Kong Profits Tax has not been provided for in the condensed consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the income tax rules and regulations of the PRC, Guiyang De Chang Xiang Pharmaceutical Company Limited ("DCX"), a subsidiary was recognised as high technology enterprise on 25 November 2008 and therefore is entitled to a preferential tax rate of 15% for three years, with effect from 25 November 2008. On 28 September 2011, DCX successfully renew the position as high technology enterprise and therefore is entitled to a preferential tax rate of 15% for another three years.

Pursuant to the income tax rules and regulations of the PRC, 桂林華諾威基因藥業有限公司, a foreign investment subsidiary was recognised as high technology enterprise on 25 December 2009 and therefore is entitled to a preferential tax rate of 15% for three years, with effect from 1 January 2010.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

6. Taxation (continued)

Pursuant to the laws and regulations in the PRC, Guizhou Factorr Bio-Technology Company Limited, a sino-foreign cooperative subsidiary of the Company, was granted a 2-year exemption followed by 3-year 50% reduction with effect from 1 January 2008.

Pursuant to the laws and regulations of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the BVI.

7. Profit for the period

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period arrived at after charging and (crediting):		
Amortisation of intangible assets	20,621	20,054
Amortisation of prepaid land lease payments	824	735
Cost of inventories sold	278,707	247,497
Staff costs (including directors' emoluments)	19,215	18,490
Share-based payments	29,400	22,650
Depreciation of property, plant and equipment	8,447	7,761
Interest income	(11,656)	(8,839)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

8. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2012 (corresponding period in 2011: Nil).

9. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to the owners of the Company for the purposes of basic and diluted earnings per share	<u>205,516</u>	<u>170,519</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

9. Earnings per share *(continued)*

	For the six months ended	
	31 December	
	2012	2011
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,421,045	2,005,256
Effect of dilutive ordinary shares in respect of share options	<u>103,287</u>	<u>80,544</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,524,332</u></u>	<u><u>2,085,800</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

10. Trade 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 for a period of up to 180 days and extended to one year for certain customers with long-established relationship and good past repayment history. The Group does not hold any collateral over these balances.

An aged analysis of the trade and bills receivables net of impairment loss recognised at the end of the reporting period, based on the invoice date, is as follows:

	31 December	30 June
	2012	2012
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 90 days	492,921	342,428
91–180 days	93,527	65,500
181–365 days	30,630	31,559
Over 365 days	1,576	3,236
	618,654	442,723

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

11. Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	31 December	30 June
	2012	2012
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 90 days	40,503	33,466
91–180 days	4,375	3,399
181–365 days	1,042	1,505
Over 365 days	2,682	3,269
	<u>48,602</u>	<u>41,639</u>

The average credit period on purchases of goods ranged from 90 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

12. Share capital

	Number of shares	Amount HK\$'000
Ordinary share of HK\$0.10 each		
<i>Authorised:</i>		
At 30 June 2012 and 31 December 2012	<u>4,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>		
At 30 June 2012	2,410,331,904	241,033
Issue of shares upon exercise of share options (Note (a))	<u>67,200,000</u>	<u>6,720</u>
At 31 December 2012	<u>2,477,531,904</u>	<u>247,753</u>

Note:

- (a) During the Period, an aggregate of 66,840,000 and 360,000 share options had been exercised respectively by certain directors of the Company and employees of the Group at a subscription price of HK\$1.743 and HK\$1.68 respectively per share for a total consideration of approximately HK\$117,106,920, resulting in an issue of 67,200,000 new ordinary shares of HK\$0.10 each. The new shares rank pari passu with the existing shares in all respect.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

13. Capital commitments

At the end of the reporting period, the Group had the following commitments:

	31 December	30 June
	2012	2012
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided for in respect of:		
Acquisition of property, plant and equipment	83,130	78,187
Acquisition of technical knowhow	–	709
Prepaid lease payments	61,650	61,100
	144,780	139,996
Capital expenditure authorised but not contracted for in respect of:		
Acquisition of property, plant and equipment	892,708	816,297

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

14. Operating lease commitments

The Group as a lessee

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

At the end of the reporting Period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2012 (Unaudited) HK\$'000	30 June 2012 (Audited) HK\$'000
Within one year	2,123	3,225
In the second to fifth year inclusive	474	1,055
More than five years	<u>–</u>	<u>33</u>
	<u>2,597</u>	<u>4,313</u>

15. Contingent liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities (30 June 2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture and sale of traditional Chinese medicines mainly specialising in gynecological pharmaceutical products and bio-pharmaceutical medicines and technologies in the People's Republic of China ("PRC" or "China"). By leveraging on the wide and fast development of the pharmaceutical market in China during the Period, the Group capitalised on the existing internal operational resources previously established which include products, technologies, market, talents and management and continued to increase our market share to create greater returns for shareholders.

MARKET REVIEW

During the Period, the PRC pharmaceutical industry continued to maintain a high growth. According to the statistics from National Bureau of Statistics of China, sales revenue of PRC pharmaceutical industry reached RMB1,708.3 billion in 2012, representing a year-on-year increase of 19.8%, which grew in line with expectation. Profit of the industry amounted to RMB173.2 billion, representing a year-on-year increase of 19.8%. Continuous expansions of the PRC pharmaceutical market were driven by the following factors. Firstly, the pace of aging population has been accelerating and common geriatric diseases, such as cancer, cardiovascular diseases, diabetes mellitus and neurological disorders, ranked top in terms of morbidity rate and relevant treatment costs. Secondly, the coverage of national medical insurance system became more comprehensive which covered a population of over 1.3 billion. There was also an increase in medical insurance premium, such as extending the coverage of medical insurance for urban residents, increasing the government subsidies for new rural co-operation medical scheme and increasing the reimbursement ratio of serious diseases to 90%. Thirdly, continuous input of resources into the public health medical sector was given by the PRC government. Urban community hospitals and county hospitals, especially township hospitals, have been developing rapidly while medical conditions were significantly improved. Fourthly, the demand for healthcare services kept rising due to increasing purchasing power of urban residents.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MARKET REVIEW *(continued)*

During the Period, some new features were found in the PRC pharmaceutical industry. As affected by the implementation of “Antibiotics Restriction Order” by the PRC government, there was a significant decline in production scale and sales of chemical raw materials and chemical medicines, while herbal pieces and Chinese patent drugs showed strong momentum of growth with a market share of nearly 30%. More pharmaceutical enterprises focused on investment in and development of product and technology innovation. Growing public concern towards pharmaceutical product quality and drug safety was aroused due to toxic capsule incident in the PRC. The drug regulatory departments therefore strengthened its supervision efforts and set much higher control standards. The regulatory scope basically covered all areas of pharmaceutical production. The “National GMP for Pharmaceutical Production (2010 version) (二零一零版國家藥品生產質量管理規範)” had been implemented and stipulated the time limit requirements for the new GMP certification and increase in fixed asset investments, which resulted in the acceleration of resources integration in pharmaceutical manufacturing industry. The scale of the state-owned enterprises has been expanding rapidly, while the entry of foreign enterprises into the industry has intensified mergers and acquisitions and reorganisations. The government has put less effort in controlling the premium of medical insurances and the price of pharmaceutical products.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MARKET REVIEW *(continued)*

China is the largest antibiotics consumption country in the world, but the abuse of antibiotics may cause serious impacts on public health. The implementation of “Antibiotics Restriction Order” has seriously hit the chemical raw materials and chemical medicines industry, and created development opportunities for traditional Chinese medicine industry objectively. Backed by the policies promulgated, the traditional Chinese medicine industry has achieved rapid growth in recent years. Due to intense competition of generic drug market and decreasing gross profit, more PRC pharmaceutical enterprises increased their investments in new drugs and new technology, so as to strengthen their future competitiveness and thereby excel others in the market. After the launching of new national GMP Standards which cover the basic GMP requirements of Europe, U.S. and the World Health Organisation in 2011, it was required to adhere to higher standards in drug production and quality control. This may bring certain impacts on small and medium pharmaceutical enterprises in short term as they were required to substantially increase their investments in technological innovation. However, in the long run, it will help enhancing the concentration of pharmaceutical industry and promoting the upgrading of pharmaceutical industry and modernisation and internationalisation of medicine production. With the support from the government and advantages in resources, several state-owned pharmaceutical enterprises became the conglomerates of the PRC pharmaceutical industry and enhanced their powers and influences in the market through several rounds of mergers and acquisitions and reorganisations. It was obvious that foreign investment enterprises have been developing in the PRC pharmaceutical market aggressively with an aim to capture larger market share.

During the Period, the “12th Five-Year Plan in Pharmaceutical Industry of China (中國醫藥工業十二五規劃)” had already been promulgated, which mainly aimed at facilitating the transformation, upgrading and rapid development of the pharmaceutical industry, as well as accelerating the pace of drug innovation, especially bio-technological drugs. Of which, neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products were number one priority in the key development areas. In addition, it improved the quality and safety standards of pharmaceutical products, reinforced the major responsibility of enterprises in terms of quality control and encouraged the enterprises to improve their quality management system.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MARKET REVIEW *(continued)*

Undoubtedly, the PRC pharmaceutical market has entered a great era. Enterprises with strong development prospects, updated marketing and development strategies, unique product series and advanced technologies, strong and well-established nationwide end-user sales and marketing network and excellent executive abilities will eventually excel others in the market and become a large PRC-based pharmaceutical enterprise which is well-equipped to face international competition.

BUSINESS REVIEW

During the Period, against the backdrop of further expansion in the domestic pharmaceutical market, increasing control efforts placed by the government and intensifying competition in the PRC pharmaceutical market, the Group has adopted proactive measures to sustain a continuous and rapid growth for the Group's businesses. During the Period, the Group continued to focus on the critical areas of its designated development strategy, and explored and established a new sales model through promoting the exclusive national medical insurance catalogue (the "**National Medical Insurance Catalogue (醫保目錄)**") products to drive the sales of prescription drugs, and promoting the exclusively branded product categories to drive the sales of over the counters (the "**OTC**") drugs. Maintaining a steady growth of traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, together with developing bio-pharmaceutical medicines technologies formed a new structure for the Group's future development. Meanwhile, the Group strictly followed the GMP production standards and processes, and focused on product quality to ensure the quality. Furthermore, the ability to estimate its expenditures scientifically, strictly control its procurement and production costs and enhance its operation and management services enabled the Group to expand its business scale and increase its sales revenue and profits substantially. This has also provided the Group a solid foundation in sustaining a healthy and rapid development position.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL PERFORMANCE

During the Period, the Group's turnover was approximately HK\$1,026.3 million (corresponding period in 2011: approximately HK\$895.3 million), of which approximately HK\$703.7 million (representing approximately 68.6% of the Group's total turnover) was derived from traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing an increase of approximately 28.3% as compared to the corresponding period last year. During the Period, sales in bio-pharmaceutical products was approximately HK\$307.7 million, (representing approximately 30.0% of the Group's total turnover), representing an increase of approximately 53.8% as compared to the corresponding period last year. Approximately HK\$14.9 million of the Group's turnover during the Period was attributable to trading business.

During the Period, the Group recorded a profit attributable to the owners of the Company of HK\$205.5 million, representing an increase of approximately 20.52% as compared to the corresponding period last year.

MARKET PERFORMANCE

During the Period, for prescription drugs, the core products of the Group include four exclusive products in National Medical Insurance Catalogue, namely "Qijiao Shengbai Capsules (芪膠升白膠囊)", "Zhisou Huatan Pills (止嗽化痰丸)", "Yi Fu (易孚)" and "Yi Bei (易貝)". The Group placed emphasis on boosting clinical academic drive, development of new medicines and medical departments, and rational drug application by doctors, forming a good trend in hospitals' acknowledgement, doctors' recognition and safe medication of patients, and thereby further enhanced the growth pattern for the continuous increase in sales volume of the exclusive products in National Medical Insurance Catalogue which also boosts the sales of other types of products. Sales revenue of "Qijiao Shengbai Capsules (芪膠升白膠囊)" and "Zhisou Huatan Pills (止嗽化痰丸)" were approximately HK\$205.3 million and HK\$43.6 million respectively, representing a growth of approximately 74.9% and 24.2% respectively as compared to the corresponding period last year. Gross sales revenues of "Yi Fu (易孚)" and "Yi Bei (易貝)" amounted to approximately HK\$261.1 million, representing a growth of approximately 39% as compared to the corresponding period last year. For OTC drugs, our core product is "Fuke Zaizaowan (婦科再造丸)" (including capsules). The Group placed emphasis on constructing its channels and marketing team and at the same time, excavated the unique functions and curative effects of the product, developed and leveraged on the brand promotion effect to actively expand our brand awareness and sales of products. "Fuke Zaizaowan (婦科再造丸)" (including capsules) recorded sales revenue of approximately HK\$209.6 million, representing an increase of approximately 44.7% as compared to the corresponding period last year, and was among the top three, in terms of sales volume, of the domestic gynecological recuperating products. The Group has authorised beauty salons in Guangdong and Sichuan to commence the promotion of "Golden Peptides (金紫肽)" products. "Golden Peptides (金紫肽)" products got off a good start and recorded sale revenue of approximately HK\$32.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESEARCH AND DEVELOPMENT

During the Period, the Group continued to conduct research and development activities in respect of raw materials like human placenta and cord blood, for the purpose of establishing an international leading, complete and high-end product and technology chain within this industry. In addition to achieving indicative breakthroughs in the “Human Nerve Growing Factor Injection (人神經生長因子注射劑)” such as process optimisation under large-scale production environment, blood product line using placenta as its raw materials, such as placenta blood albumin, gamma globulin and clotting factor, the Group also made certain progress on production technology and technics. The Group continued to participate in the research of “Mesenchymal Stem Cell Project (間充質幹細胞專案)” in Guizhou Province and closely co-operated with Chinese Academy of Science (中國科學院) and Shenzhen Beike Biotechnology Company Ltd. (“**Beike Bio-technology**”) (深圳市北科生物科技有限公司 (“北科生物”)) to jointly research and develop the bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. During the Period, the Group obtained a total of 7 national patents in the PRC.

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Period, for the production facilities construction, the “Human Nerve Growing Factor Injection (人神經生長因子注射劑)” has been formally submitted to the National Institutes for Food and Drug Control (中國食品藥品檢定院) for inspection. Once its inspection report has been issued, the project will be subject to national GMP certification and will strive for obtaining certification and put into operation as soon as possible. For the “Key Laboratory of Stem Cell Research (幹細胞重點研究實驗室)” and “Cord Blood Library (臍帶血庫)” projects, the roof-cappings of the factories have been completed, and the equipment was already in place. For the “Golden Peptides (金紫肽)” project, the reconstruction work of new production plant has commenced. For the “Placenta Blood Albumin (人胎盤血白蛋白)” project, the roof-capping of the factory has been completed, and orders for equipment were placed. The construction of the office and inspection building of the Group was also completed. The construction of the Group’s phase one pharmaceutical manufacturing base project located at Shawen Ecological Park (沙文生態園區) in Guiyang High and New Technology Zone (貴陽高新區) has commenced.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL *(continued)*

For cost control, the Group will explore its potentials, pay more attention to details and endeavor to control the escalating cost of production. During the Period, the Group continued to adopt the following strategies. The Group has adhered to its annual bulk purchase of Chinese medicine materials plan, in which total purchase volume and unit price were determined on a one-off basis, and implemented a payment-in-advance system for important purchasing contracts. Bulk goods purchasing was made by tender. In budget management, staff costs of different departments and subsidiaries were subject to authorisation and approval and key areas of the approval were reviewed. These measures had effectively mitigated the Group's pressure as a result of rising costs.

INVESTMENT AND CO-OPERATION

During the Period, the Group sold approximately 10% of the issued share capital of Magic Holdings International Limited and recorded gross cash inflow of approximately HK\$290.5 million. The Group's investment in beauty product business had generated enormous returns.

The "Placenta Blood Albumin (人胎盤血白蛋白)" co-operation project launched by the Group and the National Vaccine & Serum Institute (北京生物製品研究所), including "Placenta Pills (人胎盤片)" and "Placenta Tissue Fluid Injection (人胎盤組織液注射劑)", are under negotiation with the China National Biotech Group (中國生物技術集團).

The Group had carried out a co-operation project, namely "Guizhou Province Stem Cell Regeneration Medicine Industrialisation Base (貴州省幹細胞再生醫學產業化基地)", with Beike Bio-technology. Currently, the construction of the "Comprehensive Stem Cell Library (全功能幹細胞庫)" with pharmaceutical production and storage functions has been completed, and the Group is in the progress of obtaining ISO9000 certification. At the same time, the co-operation on the "ACTL™ Anti-Cancer Cellular Immunotherapy" (ACTL™抗腫瘤靶向性細胞免疫治療技術) was initiated.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

TEAM BUILDING

During the Period, the Group continued to build a professional, diligent and responsible team with enthusiasm in business venture and innovative spirit. Mr. Yao Chang Fa, a member of management of the Group, was honored as “Top 10 Excellent Corporate Culture Construction Leader in Guizhou Province (貴州省十大優秀企業文化建設領軍人物)” by Federation of Enterprises (企業聯合會) and Entrepreneurs Association (企業家協會) of Guizhou Province at the end of 2012. Guiyang De Chang Xiang Pharmaceutical Company Limited, a subsidiary of the Group, was awarded “Independent and Innovative Brand of Guizhou Province (貴州省自主創新品牌)” by Food And Drug Administration (藥監局), Trade and Industry Bureau (工商局) and Information Office (新聞辦) of Guizhou Province; and “2012 Most Competitive Business Award” (二零一二年度最具競爭力企業獎) by Pharmaceutics Observers Journal (醫藥觀察家報).

PROSPECTS

The relevant information shows that the PRC has become the world’s third largest drugs market in 2011, and will surpass Japan to become the world’s second largest drugs market by 2018. Therefore, our continuing goal is to become a highly competitive pharmaceutical group to share the achievements of rapid growth of the pharmaceutical market in the PRC, become the enterprise with unique and innovative products and technology in the PRC pharmaceutical market and possess comprehensive marketing network with abundant operational resources.

Meanwhile, the bio-pharmaceutical and bio-technological industry develops rapidly worldwide. As compared to traditional compound chemical drugs, bio-pharmaceuticals, supported by detailed research, have more extensive functions and advantages, more room for improvement in innovative pharmaceutical designs and dosages, and faster reaction rate for new diseases, thus most importantly provide an opportunity for re-pricing. It is estimated that bio-pharmaceutical products will account for more than one-third of the total drug sales by 2020. According to this trend, China introduced the “12th Five-Year Plan in Pharmaceutical Industry (醫藥工業十二五規劃)” last year, which listed the bio-pharmaceutical and bio-technological industry as a priority sector and offered preferential policies in research and development, technological transformation and market access. It is predicted that the outlook for the development of bio-pharmaceutical and bio-technological industry is optimistic.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

The Directors consider that, against the backdrop of the continuous improvement of industry sentiment and preferential policies and under the guidance of the leaping-forward development plan, the Group will continue to promote the overall development strategies that have already been set. These strategies include consolidating the internal resources system; accelerating the construction of new facilities according to the “National GMP certification standards (2010 version) (二零一零版國家GMP認證標準)”；perfecting the business model that will drive the overall growth of prescription drugs with the exclusive products in National Medical Insurance Catalogue being the core products, so as to sustain the market development of OTC products; investing more resources and focusing on the research and development of new bio-albumin products, placenta blood products and stem cell products that have independent intellectual property rights to strengthen the Group’s on-going competitiveness based on innovative products and innovative technology; continuing to structure the management system that can positively reflect the market value of the Group; and enhancing and protecting shareholders’ interests.

The specific missions are to:

1. focus on marketing to further improve our market share. Prescription drugs marketing: in addition to positioning “Yi Fu (易孚)”, “Yi Bei (易貝)”, “Qijiao Shengbai Capsules (芪膠升白膠囊)” and “Zhisou Huatan Pills (止嗽化痰丸)” as our principal products, we are required to be well-prepared so as to drive the development of other products by the principal products. We will also increase our working efforts on doctors so that more doctors will use those products as principal prescription in their medical diagnosis. OTC drugs marketing: by establishing “Fuke Zaizaowan (婦科再造丸)” (including capsules) as well-known brand of curing cold disease for Chinese females, and at the same time developing the drugs chain store market in China and certain important regions, we will follow up by investing in floor-to-floor promotion to increase single shop sales. In addition, as the “Golden Peptides (金紫肽)” products have both healthcare and beauty characteristics, it can be adopted to tap the high-end consumer market with huge growth potentials. Backed by established and matured beauty parlors and professional chain stores, we will formulate different marketing strategies to achieve rapid breakthroughs in the market and realise our goals.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

2. reorganise the planning layout of the Group and accelerate internal resources integration under the guidance of the State's new GMP standards. According to the Group's plans, phase one of the new plant at the Guiyang Shawen Ecological Park (貴陽沙文生態園區) has commenced construction and it will be developed into a Chinese patent drugs production base with advanced equipment and technology in the PRC. Seven newly-built dosage production workshops, including capsules, tablets, syrup, tincture and injection, as well as ancillary facilities with a total area of 140,000 square metres, are scheduled to complete construction by the end of 2013 with a total planned investment of over HK\$800 million. Meanwhile, we will accelerate the construction of the biological products and technical production base which uses human placenta and cord blood as its basic materials. Of which, the production line of the "Golden Peptides (金紫肽)" products will be put into operation in early 2013; the "Comprehensive Stem Cell Library (全功能幹細胞庫)" will be put into operation in March 2013; the "Human Nerve Growing Factor Injection (人神經生長因子注射劑)" will be put into operation in 2013 after passing the GMP certification; the placenta product projects such as "Placenta Blood Albumin (人胎盤血白蛋白)" will be completed in the first half of 2014. We are planning to invest a total of approximately HK\$600 million for the biological projects. These projects will fully capitalise on the preferential policies promulgated by the government according to the State's new GMP standards and the Group's long-term development plan. We will emphasise on product quality, strengthen the accountability system, strictly control all aspects such as purchase of raw materials, processing, inspection, storage and transportation, and thereby realising the participation in quality management by all staff throughout the entire process in all directions.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

3. firmly grasp the current valuable opportunities for being innovative in new drugs and technologies so as to accelerate the development of new products and new technologies. Based on the Group's product chain plan and market demand, by leveraging on the existing platform, we aim to create new form of co-operation mechanism to conduct multi-level co-operation with domestic and international medicine research and development institutions with excellent innovation capacity in the areas of bioengineering protein drugs and polypeptide products, genetic therapy medicines and stem cell therapy products, and recruit outstanding scientists to strengthen the Group's research and development team. We will utilise effectively the PRC government's encouraging innovation fund to make free and continuous investments and constantly launch new products and technologies. At the same time, by better grasping and controlling the research and development pace, we will refine the arrangements between investment and progress and introduce risk control mechanism and respective positioning set up, thereby the research and development risk can be avoided practically.
4. introduce concept and approach of market capitalisation management based on the distinct characteristics of Hong Kong capital market. By arranging regular meetings among management and investors, reporting the results and primary working status of the Group in a timely manner to enhance the communication with investors, coupled with reorganising the Group's strengths in strategy, product, competitiveness, growth, financial planning and costs and human resources, the mechanism of the Group's value will be more complete and clearer, and will induce the capital market to form an accurate evaluation of the Group, thereby resulting in a stable growth of market value aligning with the Group's development.
5. accelerate the Group's internal human resources integration and set up advanced research and development, production, marketing and management teams in traditional Chinese medicine, biopharmaceutical products and technology and healthcare products platforms. We will also place more efforts in recruiting talents in high-level technology, production management and marketing and sales based on the development needs of the Group's business, especially the development of bio-pharmaceutical industry. At the same time, the professional skills of existing staff will be continuously promoted. In addition, we will optimise the incentive mechanism and motivate our staff's enthusiasm in business venture and create a more executable, innovative, advancing and accommodating enterprise culture.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

- actively expand the PRC market and enhance our relationship with the government. We will proactively incorporate the Group's development into the overall domestic economic development layout and devote more contributions by increasing government fiscal income, solving unemployment problems and promoting the development of relevant industries; accelerate the development of biological products and technology to become the front-runner of the high-technology sector in the domestic economic industry; continue to strive for more investments and support from the respective government authorities for the development and technology re-engineering of the Group.

In general, the Group will forge ahead, take proactive move, and strive for further development. At the same time, we will adopt a prudent approach in view of the real-life situation, focus on risk prevention and endeavor to reward our shareholders with excellent business performance.

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 2012, the Group had unpledged cash and bank balances of approximately HK\$2,671.2 million (30 June 2012: approximately HK\$2,095.3 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 0.8% (30 June 2012: approximately 0.8%). Net current assets was approximately HK\$3,011.8 million (30 June 2012: approximately HK\$2,529.2 million) and the current ratio was maintained at the level of approximately 8.2 (30 June 2012: approximately 11.9) as at 31 December 2012.

The finance costs of the Group for the Period amounted to approximately HK\$1.3 million (corresponding period in 2011: approximately HK\$1.2 million), representing approximately 0.1% (corresponding period in 2011: approximately 0.1%) of the Group's total turnover and there is no significant change in finance costs over the corresponding period in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities (30 June 2012: Nil).

BANK BORROWINGS

As at 31 December 2012, the Group had outstanding bank loans of approximately HK\$32.2 million from the banks in the PRC (30 June 2012: approximately HK\$31.7 million), which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi.

As at 31 December 2012, the Group's bank borrowings were secured by certain prepaid land lease payments and buildings of the Group.

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. The exchange rate for 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 with reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

COMMITMENTS

As at 31 December 2012, the Group had contracted commitments of HK\$nil (30 June 2012: approximately HK\$0.7 million), approximately HK\$83.1 million (30 June 2012: approximately HK\$78.2 million), approximately HK\$61.7 million (30 June 2012: approximately HK\$61.1 million) in respect of purchases of technical knowhow/patent, purchase of property, plant and equipment and purchase of land respectively. As at 31 December 2012, the Group also had capital expenditure authorised but not contracted for in respect of purchase of properties, plant and equipments amounted to approximately HK\$892.7 million (30 June 2012: approximately HK\$816.3 million).

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2012, the Group had a total of 1,065 employees (corresponding period in 2011: 1,090), of whom 1,055 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 of the Group (including Directors' remunerations) amounted to approximately HK\$19,215,000 (corresponding period in 2011: approximately HK\$18,490,000). Staff costs of the Group accounted for approximately 1.9% of the Group's turnover (corresponding period in 2011: approximately 2.1%) 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 (corresponding period in 2011: 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 2012, 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 Appendix 10 to 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
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	694,607,289 shares (L) (Note 2a)	28.04%
	The Company	Beneficial owner	2,400,000 shares (L) (Note 2b)	0.10%
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM")	Interest of controlled corporation	5% (L) (Note 3)	5%
	The Company	Beneficial owner	2,400,000 shares (L) (Note 2b)	0.10%

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

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. Long Xian Feng	The Company	Beneficial owner	2,400,000 shares (L) <i>(Note 2b)</i>	0.10%
Mr. Zhou Chong Ke	The Company	Beneficial owner	2,400,000 shares (L) <i>(Note 2b)</i>	0.10%
Mr. Tarn Sien Hao	The Company	Beneficial owner	57,600 shares (L)	0.002%
Professor Kung Hsiang Fu	The Company	Beneficial owner	3,822,720 shares (L) <i>(Note 2c)</i>	0.15%
Professor Tso Wung Wai	The Company	Beneficial owner	2,400,000 shares (L)	0.10%
Mr. Hon Yiu Ming, Matthew	The Company	Beneficial owner	2,544,000 shares (L) <i>(Note 2d)</i>	0.10%

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 of the Company (the "**Shares**") and underlying Shares or, as the case may be, the equity interest of the Company or its associated corporations.
- 2a. These 694,607,289 Shares were held by Bull's-Eye Limited ("**BEL**"), more than one-third of the issued share capital of which was 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. was deemed to be interested in all the Shares held by BEL.
- 2b. These Shares were shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company. Out of these options there are 2,280,000 options which are exercisable at the subscription price of HK\$1.743 per Share (adjusted to HK\$1.4525 per Share on 22 January 2013) at any time during a period of two years commencing from and including 28 July 2011 to 27 July 2013 and there are 120,000 options which are exercisable at the subscription price of HK\$1.68 per Share (adjusted to HK\$1.40 per Share on 22 January 2013) at any time during a period of two years commencing from and including 3 October 2012 to 2 October 2014.
- 2c. These 3,822,720 Shares included 2,400,000 shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company as mentioned in note (2b) above.
- 2d. These 2,544,000 Shares included 2,400,000 shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company as mentioned in note (2b) above.
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 was deemed to be interested in the equity interests in GHXM held by GHKA.

ADDITIONAL INFORMATION *(continued)*

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

Save as disclosed above, as at 31 December 2012, 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.

SHARE OPTION SCHEME

At the date of this report, the Company had 99,360,000 share options outstanding under the Share Option Scheme (the "**Scheme**"), which represented approximately 3.28% of the Company's Shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 99,360,000 additional ordinary Shares.

ADDITIONAL INFORMATION (continued)

SHARE OPTION SCHEME (continued)

The following table sets out the details of the share options which were granted, exercised or outstanding under the Scheme during the Period:

Name or Category of participants	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options (Note (a)) HK\$	Price of the Share at the date immediately preceding the date of grant of options (Note (b)) HK\$
	At 1 July 2012	Granted during the Period	Exercised during the Period	Cancelled or lapsed during the Period	At 31 December 2012				
Directors									
<i>Executive</i>									
Mr. Zhang Peter Y.	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
Mr. Deng Jie	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
Mr. Long Xian Feng	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
Mr. Zhou Chong Ke	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
<i>Non-executive</i>									
Mr. Wee Ee Lim	2,280,000	-	(2,280,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	(120,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>(2,400,000)</u>	<u>-</u>	<u>-</u>				
Mr. Tam Sien Hao	2,280,000	-	(2,280,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	(120,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>(2,400,000)</u>	<u>-</u>	<u>-</u>				

ADDITIONAL INFORMATION (continued)

SHARE OPTION SCHEME (continued)

Name or Category of participants	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options (Note (a)) HK\$	Price of the Share at the date immediately preceding the date of grant of options (Note (b)) HK\$
	At 1 July 2012	Granted during the Period	Exercised during the Period	Cancelled or lapsed during the Period	At 31 December 2012				
<i>Independent Non-executive</i> Professor Kung Hsiang Fu	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
Professor Tso Wung Wai	2,280,000	-	(2,280,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	(120,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>(2,400,000)</u>	<u>-</u>	<u>-</u>				
Mr. Hon Yiu Ming Matthew	2,280,000	-	-	-	2,280,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	120,000	-	-	120,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>2,280,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>				
	<u>20,520,000</u>	<u>1,080,000</u>	<u>(7,200,000)</u>	<u>-</u>	<u>14,400,000</u>				
Other employees (Note(c))	93,480,000	-	(60,000,000)	-	33,480,000	28 July 2011	28 July 2011 to 27 July 2013	1.743	1.78
	-	84,920,000	-	-	84,920,000	3 October 2012	3 October 2012 to 2 October 2014	1.68	1.62
	<u>93,480,000</u>	<u>84,920,000</u>	<u>(60,000,000)</u>	<u>-</u>	<u>118,400,000</u>				
	<u>114,000,000</u>	<u>86,000,000</u>	<u>(67,200,000)</u>	<u>-</u>	<u>132,800,000</u>				

Notes:

- Pursuant to the Scheme, the exercise price of the share option of HK\$1.743 per Share (adjusted to HK\$1.4525 per Share on 22 January 2013) granted on 28 July 2011 and the exercise price of the share option of HK\$1.68 per Share (adjusted to HK\$1.40 per Share on 22 January 2013) granted on 3 October 2012 are subject to further adjustment in the case of capitalisation of profits or reserves, rights issue, consolidation, sub-division, reduction of the Company's share capital, or other similar changes in the Company's share capital.
- The price of the Shares disclosed is the Stock Exchange closing price on the date immediately preceding the date of the grant of the options.
- Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group.

ADDITIONAL INFORMATION *(continued)*

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

After having made reasonable enquiry, the Directors are aware that as at 31 December 2012, the following persons or entities, 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:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
BEL <i>(Note 2)</i>	694,607,289 (L)	Beneficial owner	28.04%
Liu Yu <i>(Note 3)</i>	697,007,289 (L)	Interest of spouse	28.13%
Haw Par Pharmaceutical Holdings Pte. Ltd	404,973,984 (L)	Beneficial owner	16.35%
Haw Par Corporation Limited <i>(Note 4)</i>	404,973,984 (L)	Interest of controlled corporation	16.35%
Atlantis Capital Holdings Limited <i>(Note 5)</i>	319,800,000 (L)	Interest of controlled corporation	12.91%
Liu Yang <i>(Note 6)</i>	319,800,000 (L)	Interest of controlled corporation	12.91%
Kingston Finance Limited	285,600,000 (L)	Person having a security interest in Shares	11.53%
Ample Cheer Limited <i>(Note 7)</i>	285,600,000 (L)	Interest of controlled corporation	11.53%
Best Forth Limited <i>(Note 8)</i>	285,600,000 (L)	Interest of controlled corporation	11.53%
Chu Yuet Wah <i>(Note 9)</i>	285,600,000 (L)	Interest of controlled corporation	11.53%

ADDITIONAL INFORMATION *(continued)*

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. Atlantis Investment Management (Hong Kong) Limited which is wholly-owned company of Atlantis Capital Holdings Limited, held 319,800,000 shares in the Company in the capacity of investment manager. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Atlantis Capital Holdings Limited is deemed to be interested in all the Shares in which Atlantis Investment Management (Hong Kong) Limited is interested.
6. Atlantis Capital Holdings Limited is owned as to 100% by Ms. Liu Yang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Ms. Liu Yang is deemed to be interested in all Shares in which Atlantis Capital Holdings Limited is deemed to be 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)*

Notes: (continued)

7. Kingston Finance Limited is owned as to 100% by Ample Cheer Limited. By virtue of the provisions of Division 2 and 3 of part XV of the SF Ordinance, Ample Cheer Limited is deemed to be interested in all Shares in which Kingston Finance Limited is deemed to be interested.
8. Ample Cheer Limited is owned as to 80% by Best Forth Limited. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Best Forth Limited is deemed to be interested in all Shares in which Ample Cheer Limited is deemed to be interested.
9. Best Forth Limited is owned as to 100% by Mrs. Chu Yuet Wah. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Mrs. Chu Yuet Wah is deemed to be interested in all Shares in which Best Forth Limited is deemed to be interested.

Save as disclosed above, as at 31 December 2012, 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.

ADDITIONAL INFORMATION *(continued)*

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules throughout the Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, have purchased, redeemed or sold any of the Company's listed securities during 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 (the "**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.

By order of the Board

Hua Han Bio-Pharmaceutical Holdings Limited

Zhang Peter Y.

Chairman

Hong Kong, 27 February 2013