



# 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  
2013/2014



## **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.

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## 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 2013 (“**Period**”) together with the comparative figures for the corresponding period in 2012 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	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	<b>1,363,601</b>	1,026,297
Cost of sales		<b>(320,444)</b>	(278,707)
Gross profit		<b>1,043,157</b>	747,590
Other income		<b>6,146</b>	13,006
Selling and distribution expenses		<b>(705,529)</b>	(445,361)
Administrative expenses		<b>(42,844)</b>	(38,590)
Share-based payments		–	(29,400)
Gain on disposal of available-for-sale investments		–	19,534
Finance costs	5	<b>(783)</b>	(1,293)
Profit before tax		<b>300,147</b>	265,486
Income tax expense	6	<b>(45,330)</b>	(50,245)
Profit for the period	7	<b>254,817</b>	215,241
Dividend	8	–	–

## CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
ATTRIBUTABLE TO:		
Owners of the Company	<b>247,293</b>	205,516
Non-controlling interests	<b>7,524</b>	9,725
	<b><u>254,817</u></b>	<u>215,241</u>
EARNINGS PER SHARE ATTRIBUTABLE		
TO OWNERS OF THE COMPANY		(Restated)
Basic	<b><u>HK7.8 cents</u></b>	<u>HK7.1 cents</u>
Diluted	<b><u>HK7.8 cents</u></b>	<u>HK6.8 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
PROFIT FOR THE PERIOD	<u><b>254,817</b></u>	<u>215,241</u>
OTHER COMPREHENSIVE INCOME		
<i>Items that may be reclassified to income statement in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u><b>46,549</b></u>	<u>49,965</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><b>301,366</b></u>	<u>265,206</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u><b>289,637</b></u>	<u>248,532</u>
Non-controlling interests	<u><b>11,729</b></u>	<u>16,674</u>
	<u><b>301,366</b></u>	<u>265,206</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>31 December 2013 (Unaudited)</b>	30 June 2013 (Audited)
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>357,599</b>	361,560
Prepaid land lease payments	<b>30,049</b>	29,705
Intangible assets	<b>147,698</b>	164,220
Deferred expenditure	<b>52,512</b>	51,471
Goodwill	<b>110,273</b>	110,273
Investment in an associate	<b>379,103</b>	374,742
Deposits	<b>886,399</b>	467,093
Deferred tax assets	<b>44,803</b>	43,915
	<hr/>	<hr/>
Total non-current assets	<b>2,008,436</b>	1,602,979
<b>CURRENT ASSETS</b>		
Inventories	<b>83,330</b>	41,383
Trade and bills receivables	<b>912,624</b>	659,924
Prepayments, deposits and other receivables	<b>39,701</b>	43,605
Tax recoverable	<b>6,953</b>	6,815
Cash and cash equivalents	<b>2,467,628</b>	2,799,436
	<hr/>	<hr/>
Total current assets	<b>3,510,236</b>	3,551,163
<b>CURRENT LIABILITIES</b>		
Trade payables	<b>78,567</b>	51,854
Other payables and accrued expenses	<b>154,632</b>	139,769
Obligation under a finance lease	<b>89</b>	89
Interest-bearing bank borrowings	<b>25,616</b>	25,108
Tax payable	<b>122,918</b>	125,941
Dividend payable	<b>200,995</b>	–
	<hr/>	<hr/>
Total current liabilities	<b>582,817</b>	342,761
	<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>	<b>2,927,419</b>	3,208,402
	<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>4,935,855</b>	4,811,381
	<hr/>	<hr/>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

	<b>31 December 2013 (Unaudited) HK\$'000</b>	30 June 2013 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Obligation under a finance lease	<b>31</b>	31
Deferred tax liabilities	<b>52,725</b>	55,868
Deferred income	<b>15,370</b>	17,576
	<hr/>	<hr/>
Total non-current liabilities	<b>68,126</b>	73,475
	<hr/>	<hr/>
Net assets	<b>4,867,729</b>	4,737,906
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Issued capital	<b>319,039</b>	317,009
Reserves	<b>4,345,913</b>	4,229,849
	<hr/>	<hr/>
	<b>4,664,952</b>	4,546,858
NON-CONTROLLING INTERESTS		
	<b>202,777</b>	191,048
	<hr/>	<hr/>
TOTAL EQUITY	<b>4,867,729</b>	4,737,906
	<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation 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 2013	317,009	1,135,052	45,834	100,781	516,032	7,694	(8,410)	2,233,150	199,716	4,546,858	191,048	4,737,906
Profit for the Period	-	-	-	-	-	-	-	247,293	-	247,293	7,524	254,817
Exchange differences on translation of foreign operations	-	-	-	-	42,344	-	-	-	-	42,344	4,205	46,549
Total comprehensive income for the Period	-	-	-	-	42,344	-	-	247,293	-	289,637	11,729	301,366
Issue of shares upon exercise of share options	2,030	35,116	-	-	-	(7,694)	-	-	-	29,452	-	29,452
Final and special 2013 dividends declared	-	(1,279)	-	-	-	-	-	-	(199,716)	(200,995)	-	(200,995)
At 31 December 2013	<u>319,039</u>	<u>1,168,889</u>	<u>45,834</u>	<u>100,781</u>	<u>558,376</u>	<u>-</u>	<u>(8,410)</u>	<u>2,480,443</u>	<u>-</u>	<u>4,664,952</u>	<u>202,777</u>	<u>4,867,729</u>
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>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>52,756</b>	137,808
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	<b>(435,618)</b>	274,862
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>26,962</b>	117,616
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(355,900)</b>	530,286
Cash and cash equivalents at beginning of period	<b>2,799,436</b>	2,095,315
Effect of foreign exchange rate changes, net	<b>24,092</b>	45,617
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b><u>2,467,628</u></b>	<u>2,671,218</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b><u>2,467,628</u></b>	<u>2,671,218</u>



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2013 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 (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 2013, 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 2013 annual financial statements of the Group for the year ended 30 June 2013.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

### 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.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

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 2014 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. Revenue

Revenue 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 revenue:

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing and sale of pharmaceutical products	1,262,190	1,011,390
Trading of pharmaceutical products	101,411	14,907
	<u>1,363,601</u>	<u>1,026,297</u>

## 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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A	<u>366,408</u>	<u>275,841</u>

### 5. Finance costs

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on:		
— bank borrowings repayable within five years	775	1,264
— finance lease charges	<u>8</u>	<u>29</u>
Total borrowing costs charged to the condensed consolidated income statement	<u>783</u>	<u>1,293</u>



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

### 6. Income tax

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — Mainland China		
— Charge for the Period	<u>45,330</u>	<u>50,245</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in the Mainland China have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

Under the Corporate Income Tax Law (the “**New CIT Tax Law**”) of the PRC, which became effective from 1 January 2008, enterprises are subject to corporate income tax (“**CIT**”) at a rate of 25%. Under the New CIT Tax Law, for those enterprises benefiting from lower preferential tax rates, the preferential rates will be gradually phased out by increasing them to 25% over five years.

Guiyang De Chang Xiang Pharmaceutical Company Limited (“**DCX**”) and 桂林華諾威基因藥業有限公司 (“**華諾威**”), subsidiaries of the Company, were classified as approved High and New Technology Enterprises in Mainland China. Accordingly, DCX and 華諾威 are entitled to a preferential Mainland China corporate income tax rate of 15%. Moreover, pursuant to an approval received from 西藏自治區人民政府 on 1 January 2011, 西藏昌都地區康源醫藥有限公司, a subsidiary of the Company, was approved a Mainland China corporate income tax rate of 15% with respect to the preferential tax policy granted for entities established in Tibet.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

### 7. Profit for the period

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period arrived at after charging and (crediting):		
Amortisation of intangible assets	17,154	20,621
Amortisation of prepaid land lease payments	567	824
Cost of inventories sold	320,444	278,707
Staff costs (including directors' emoluments)	20,273	19,215
Share-based payments	–	29,400
Depreciation of property, plant and equipment	7,996	8,447
Interest income	(3,604)	(11,656)

## 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 2013 (corresponding period in 2012: Nil).

### 9. Earnings per share attributable to owners of the Company

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

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Earnings		
Profit for the period attributable to the owners of the Company for the purposes of basic and diluted earnings per share	<b><u>247,293</u></b>	<u>205,516</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

### 9. Earnings per share attributable to owners of the Company (continued)

	For the six months ended	
	31 December	
	2013	2012
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (2012: restated to reflect the effect of the 2012 bonus issue)	<b>3,187,750</b>	2,905,254
Effect of dilutive ordinary shares in respect of share options	<b>2,648</b>	123,944
	<u>3,190,398</u>	<u>3,029,198</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (2012: restated to reflect the effect of the 2012 bonus issue)	<b>3,190,398</b>	3,029,198

## 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:

	<b>31 December</b>	30 June
	<b>2013</b>	2013
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>774,371</b>	474,661
91–180 days	<b>107,376</b>	76,114
Over 181 days	<b>30,877</b>	109,149
	<b>912,624</b>	659,924

## 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:

	<b>31 December</b>	30 June
	<b>2013</b>	2013
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>74,406</b>	37,292
91–180 days	<b>1,334</b>	6,461
181–365 days	<b>587</b>	3,581
Over 365 days	<b>2,240</b>	4,520
	<u><b>78,567</b></u>	<u>51,854</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 2013	4,000,000,000	400,000
Increase of authorised share capital	<u>4,000,000,000</u>	<u>400,000</u>
At 31 December 2013	<u>8,000,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
At 30 June 2013	3,170,094,284	317,009
Issue of shares upon exercise of share options (Note (a))	<u>20,304,000</u>	<u>2,030</u>
At 31 December 2013	<u>3,190,398,284</u>	<u>319,039</u>

*Note:*

- (a) During the Period, an aggregate of 19,584,000 and 720,000 share options had been exercised respectively by certain directors of the Company and employees of the Group at a subscription price of HK\$1.4525 and HK\$1.4 respectively per share for a total consideration of approximately HK\$29,453,760, resulting in an issue of 20,304,000 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:

	<b>31 December 2013 (Unaudited) HK\$'000</b>	30 June 2013 (Audited) HK\$'000
Capital expenditure contracted for but not provided for in respect of:		
Acquisition of property, plant and equipment	<b>75,140</b>	74,224
Acquisition of technical knowhow	<b>738</b>	729
	<b><u>75,878</u></b>	<u>74,953</u>
Capital expenditure authorised but not contracted for in respect of:		
Acquisition of property, plant and equipment	<b><u>848,961</u></b>	<u>838,607</u>



## 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 nine 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:

	<b>31 December 2013 (Unaudited) HK\$'000</b>	30 June 2013 (Audited) HK\$'000
Within one year	<b>288</b>	727
In the second to fifth years, inclusive	<b>31</b>	270
More than five years	<b>23</b>	26
	<b>342</b>	1,023

### 15. Contingent liabilities

As at 31 December 2013, the Group did not have any material contingent liabilities (30 June 2013: 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 broadened and fast-developing pharmaceutical market in China, the Group during the Period capitalised on the existing internal operational resources previously established in terms of products, technologies, markets, 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 the National Bureau of Statistics of China, sales revenue of PRC pharmaceutical industry reached approximately RMB1,840 billion during the period from January to November 2013, representing a year-on-year increase of 18.54%, of which approximately RMB890 billion was realized during the period from July to November 2013; with a recorded profit of approximately RMB170 billion, representing a year-on-year increase of 18.27%, of which approximately RMB87.868 billion was realized during the period from July to November 2013. 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 has become more comprehensive, and medical insurance premium is increasing at a faster pace. Thirdly, the government has been continuously increasing its input into public healthcare, urban community hospitals and county hospitals, especially township health centres, have been developing rapidly while medical conditions were significantly improved. Fourthly, the demand for healthcare services kept rising due to increasing affordability of urban residents.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### MARKET REVIEW (continued)

During the Period, some new features were found in the PRC pharmaceutical industry. The State strengthened its supervision efforts toward the pharmaceutical industry with various law enforcement agencies carrying out specific actions in the fight against commercial briberies in the sale and purchase of pharmaceutical products to promote standardized, healthy and sustainable development of pharmaceutical enterprises. The time limit requirements under the new GMP accreditation and substantial increase in fixed asset investments accelerated the process of resources integration in the pharmaceutical manufacturing industry. State-owned pharmaceutical enterprises have been expanding continuously while domestic enterprises have replaced foreign pharmaceutical conglomerates as the initiators of intensified mergers, acquisitions and reorganisations. Drug tenders became the government's key measure to control drug prices and to regulate the market. The State has issued the "Several Opinions of the State Council on Promoting the Development of Health Service Industry" (《國務院關於促進健康服務業發展的若干意見》) to encourage the entry of social enterprises into the medical services sector. More new products and technologies were introduced to the industry. However, under the influence of various factors, it is not an easy task to control the increasing risks.

After the case of a large foreign pharmaceutical enterprise investigated by the China Food and Drug Administration, various law enforcement agencies have successively carried out specific actions such as the promulgation of the "Circular on Conducting Special Treatment of Improper Competition" (《開展不正當競爭專項治理工作的通知》) issued by the State Administration for Industry and Commerce and the "Advice on Establishing the Required Records of Commercial Bribery in the Sale and Purchase of Pharmaceutical Products" (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) issued by the National Health and Family Planning Commission in the fight against commercial briberies in the pharmaceutical sector, which brings a great impact on pharmaceutical industry. Chinese medicine had gained strong backup from government policies. More Chinese medicines are listed in the "Essential Drug List" (基藥目錄), resulting in rapid growth in the Chinese medicine manufacturing industry, reaching a market share of nearly 30%. Pharmaceutical enterprises are increasing their investments in new drugs and new technologies. However, the reviewing process of new drugs in China is complicated and time-consuming, the research and

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### MARKET REVIEW *(continued)*

development cost of new drugs rises and delays their market launch, resulting in higher actual risks for manufacturing new drugs. Since the launch of National GMP accreditation standards is comparable with the GMP requirements of Europe and the World Health Organisation, around 60% of the sterile pharmaceutical enterprises have met the requirements under the new GMP accreditation during the year, while remaining about 40% of the sterile pharmaceutical enterprises failed to obtain the accreditation within the time frame after the implementation of new GMP accreditation. In the long run, it will help to consolidate the pharmaceutical industry, driving the enhancement in the industry as well as the modernisation and internationalisation of medicine production. Several state-owned pharmaceutical enterprises, being the mega conglomerates in the industry, continued to scramble in the PRC pharmaceutical market. This has also given rise to the unexpected emergence of private-owned pharmaceutical enterprises, which are the main drive of this round of mergers, acquisitions and reorganisations. The Essential Drug List and Medical Insurance Catalogue and the tendering procedures are becoming the permit for entering the pharmaceutical industry.

During the Period, the “12th Five-Year Plan in China Pharmaceutical Industry” (中國醫藥工業十二五規劃) has been implemented, which mainly targets to facilitate transformation, upgrading and rapid development of the pharmaceutical industry, accelerates the pace of drug innovation, especially bio-technical medicine among which neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products are being listed in the first batch of key development areas. The Plan also encourages the central-western region to develop distinctive pharmaceutical manufacturing industry, and strengthening reservation, development as well as application of Chinese medicine and ethnic medicine resources. At the same time, it enhances the quality and safety standards of pharmaceutical products, reinforces the major responsibility of enterprises in terms of quality control and encourages the enterprises to perfect its 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 outrun other competitors in the market and become a large home-grown pharmaceutical enterprise which is well-equipped to compete internationally.

### BUSINESS REVIEW

During the Period, against the backdrop of the rapid development of the domestic pharmaceutical market, tighter government control and intense market competition, the Group has adopted proactive measures to sustain growth for the results of the Group. The Group continued to focus on critical areas of its designated development strategy, 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 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 and uphold product quality. Furthermore, with the Group’s ability to monitor expenditures, stringent control over its procurement and production costs, as well as the operation philosophy on compliances and its focus on standardised market operation, the Group was able to expand its business scale and increase its sales revenue and profits substantially, providing the Group with a solid foundation for furthering a sustainable, healthy and rapid development.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL PERFORMANCE

During the Period, the Group's revenue was approximately HK\$1,363.6 million (corresponding period in 2012: approximately HK\$1,026.3 million), of which approximately HK\$954.5 million (representing approximately 70.0% of the Group's total revenue) was derived from traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing an increase of approximately 35.6% as compared to the corresponding period last year. During the Period, sales in bio-pharmaceutical products were approximately HK\$307.7 million (representing approximately 22.6% of the Group's total revenue), representing an increase of approximately 5.0% as compared to the corresponding period last year. Approximately HK\$101.4 million of the Group's revenue during the Period was attributable to trading business.

During the Period, the Group recorded a profit attributable to the owners of the Company of approximately HK\$247.3 million, representing an increase of approximately 20.3% as compared to the corresponding period last year.

### MARKET PERFORMANCE

During the Period, for prescription drugs, the core products of the Group still 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, new hospitals 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 boosted the sales of other types of products. During the Period, sales revenues of "Qijiao Shengbai Capsules (芪膠升白膠囊)" and "Zhisou Huatan Pills (止嗽化痰丸)" were approximately HK\$392.4 million and HK\$69.3 million respectively, representing a growth of approximately 91.1% and 58.9% 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\$269.3 million, representing a growth of approximately 3.1% as compared to the corresponding period last year. For OTC drugs, our core product is "Fuke

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### MARKET PERFORMANCE (continued)

Zaizaowan (婦科再造丸)". 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. During the Period, "Fuke Zaizaowan (婦科再造丸)" (including capsules) recorded sales revenue of approximately HK\$264.1 million, representing an increase of approximately 25.9% 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)" and "UC Small Peptides (UC小肽)" products recorded sale revenue of approximately HK\$44.9 million representing a growth of approximately 40.3% as compared to the corresponding period last year.

### 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, and began to establish a national leading, complete and high-end product and technology line within this industry. The Group achieved a breakthrough in the skills of separation, purification and extraction of human placenta protein. 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 cooperated with the Chinese Academy of Science (中國科學院) and Zunyi Medical College (遵義醫學院) to research and develop the bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. Preliminary research and development work for improved and upgraded version of products such as "Sugar-free Astragalus Granule (無糖型黃芪顆粒)" (including capsules), "Recombinant Human Epidermal Growth Factor Eye-Gel (重組人表皮生長因子眼用凝膠)" are actively underway.

### PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Period, for the production facilities construction, the construction work 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. The facilities construction was designed as seven types of dosage including thirteen production workshops with a total floor area of 140,000 square metres. When completed, such facilities can handle up to 10,000 tonnes of Chinese medicine, with an annual production value of RMB8 billion. Design work of the production base of "Recombinant Human Epidermal Growth Factor Raw Material (重組人表皮生長因子原料) and Expansion Project of Pharmaceutical Production Workshops (製劑生產車間擴建項目)" in Guilin was completed and the infrastructure construction has started. The expected investment for this project was approximately RMB200 million. The project included newly-built raw material and pharmaceutical production workshops with an area of 11,000 square metres and an advanced equipment from overseas was introduced to our major equipment.

For cost control, the Group will explore its potentials, pay more attention to details and endeavor to control the escalating production cost. 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 in a single transaction, and implemented a cost-effective 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.



## **TENDERS AND REPORTS ON ESSENTIAL DRUG LIST AND NATIONAL MEDICAL INSURANCE CATALOGUE**

During the Period, the Group submitted about 96 products and 110 specifications in 10 open tenders organised by various provincial governments, out of which a total of 84 products and 96 specifications were accepted. As at the end of 2013, the Group has 4 exclusive products listed in the National Essential Drug List together with 11 exclusive products, listed in 14 Provincial Essential Drug List and Medical Insurance Catalogue in total, and “Fuke Zaizaowan (婦科再造丸)”, “Zhisou Huatan Pills (止嗽化痰丸)”, “Yi Fu (易孚)” and “Yi Bei (易貝)” were included in “Essential Drug List of the Guangdong Province 2013 edition”(2013年版廣東省基本藥物目錄).

## **PRODUCT AUTHORISATION AND HONOR**

During the Period, the Group applied “utility model” authorisation for 8 items, of which 6 items have been granted the authorisation; 3 products including “Qijiao Shengbai Capsules (芪膠升白膠囊)” were awarded the “Guizhou Famous Brand Product (貴州省名牌產品)” title by the Guizhou Bureau of Quality and Technical Supervision; and “De Chang Xiang (德昌祥)” was awarded the “Guizhou Famous Trademark (貴州省著名商標)” by the Guizhou Province Intellectual Property Bureau. “De Chang Xiang (德昌祥)” was recommended by the China Association of Traditional Chinese Medicine and the China Medical Association of Minorities to the State Administration for Industry and Commerce for the granting of “China Famous Trademark (中國馳名商標)”. Meanwhile, application by the Group for the classification of “De Chang Xiang (德昌祥)” as “intangible cultural heritage (非物質文化遺產)” is also in progress.

## **INVESTMENT AND CO-OPERATION**

During the Period, the Group and the National Vaccine & Serum Institute (北京生物製品所) participated in the “Human Placenta Blood Albumin (人胎盤血白蛋白)” co-operation project, including “Human Placenta Pills (人胎盤片)” and “Human Placenta Tissue Fluid Injection (人胎盤組織液注射劑)”. Transfer of product licenses and relevant information is under process.

## 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.

### PROSPECTS

The relevant information shows that the PRC has become the world's third largest drug market in 2011, and will surpass Japan to become the world's second largest drug market by 2018. Therefore, becoming a highly competitive pharmaceutical group to share the accomplishments of rapid growth of pharmaceutical market in the PRC, become an enterprise with unique and innovative products and technology in the PRC pharmaceutical market and possessing comprehensive marketing network with abundant operational resources remain the goal of our endeavor.

Meanwhile, the bio-pharmaceutical and bio-technological industry develops rapidly worldwide. As compared to traditional synthetic chemical drugs, bio-pharmaceuticals, supported by detailed research, have more extensive therapeutic functions and advantages, more room for improvement in innovative pharmaceutical designs and dosages, and faster reaction rate for new diseases, thus more 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 China Pharmaceutical Industry (中國醫藥工業十二五規劃)" in 2012, 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 the pharmaceutical market 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 which were designed according to the new National GMP certification standards; perfecting the business model that will drive the overall growth of prescription drugs with the exclusive products in the National Medical Insurance Catalogue being the core products, so as to sustain the market development of OTC products; committing more resources to 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, in order to strengthen the Group's on-going competitiveness based on innovative products and innovative technology; with the aim of exerting overall advantages and seeking new growth, and at the same time extending the line of product and the line of technology, identify opportunities to enter the field of medical services; continuing to structure the management system that can positively reflect the estimated market value of the Group, and enhancing and safeguarding shareholders' interests.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS (continued)

The specific missions are to:

1. Focus on marketing to further improve our market share. Prescription drugs marketing: in addition to positioning “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)” as our principal products, we are required to be well-prepared so as to drive the development of other products by the principal products. As to “Qijiao Shengbai Capsules (芪膠升白膠囊)”, in addition to the original division of oncology, we accelerate the development of application to the retired cadres section and gynecology. Meanwhile, more human and financial resources will be devoted to regions including Yangtze River Delta, Beijing, Tianjin and Guangdong to achieve a larger sale scale. As to “Yi Fu (易孚)” and “Yi Bei (易貝)”, we have to take full advantage of product efficacy and technological advantages, to boost academic promotion, so as to consolidate our leading position in the field of small-scale epidermal skin repair, as well as to capitalise on the opportunity of being listed on the Guangdong Essential Drugs List (廣東基藥目錄), in order to capture the whole provincial market speedily. OTC drugs marketing: we continue to establish “Fuke Zaizaowan (婦科再造丸)” (including capsules) as a well-known brand of curing cold disease for Chinese females, and aptly add to the advertising efforts while focusing on its promotion through new media outlets, with the view to increase single-store sales by various means. In addition, through the close cooperation with established beauty parlors and professional chain stores, as well as the combination of various brands with different marketing and promotion portfolios, we aim to encourage rapid growth of “Golden Peptides (金紫肽)” line of products in the high-end health care products market.
2. Leveraging on the advantages that the Group has more exclusive products and principal products, we will endeavour to gain government support in all possible ways, to include our advantageous products with independent intellectual property rights, reliable curing effect and those that are widely acclaimed in the National Medical Insurance Catalogue or Essential Drug List, while seeking to include products which are not yet listed in the national catalogue to be included in provincial catalogue.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### PROSPECTS *(continued)*

3. Under the guidance of the new National GMP Standards, accelerate development of new strategies of the Group within the industry. We are committed to topping out the factory in the Group's Chinese patent drugs production base in Guiyang Shawen New District (貴陽沙文新區) with the arrival of equipment and commence the purifying renovation by the end of June 2014 to ensure that it will be granted the new GMP accreditation and commence production by the end of September 2014. The "Recombinant Human Epidermal Growth Factor Raw Material (重組人表皮生長因子原料), Expansion Project of Pharmaceutical Production Workshops (製劑生產車間擴建項目)" in production base of Guilin will be completed by the end of this year, will be granted the New GMP accreditation and will commence operation. We strive to complete the placenta product project of "Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)" in the biological base of Guiyang (貴陽生物基地) by the end of this year. With the support from the provincial government and relevant state departments, we will strengthen our efforts to ensure that the "Human Nerve Growing Factor Injection (人神經生長因子注射劑)" will pass GMP accreditation and commence operation. 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)

4. According to the Group's research and development plan, we cooperate with pharmaceutical research and development institutions such as the Chinese Academy of Science and Zunyi Medical College through existing platforms, to recruit distinguished scientists to build up the Group's research and development team, and endeavor to invent new bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. We will accelerate the application of modern technology in the research and development as well as the production of Chinese medicine, and to enhance and perfect the technical standards and specifications of the whole industrial chain of Chinese medicine. Improved and upgraded version of the products such as "Sugar-free Astragalus Granule (無糖型黃芪顆粒)" (including capsules), "Recombinant Human Epidermal Growth Factor Eye-Gel (重組人表皮生長因子眼用凝膠)" has entered the testing stage. We will utilize effectively the PRC government's encouraging innovation fund to finance and continue 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.
5. In response to the market conditions, we will meticulously rearrange the market segments to better control any market competition. Based on different regional market conditions, we will select agents with advantages in terms of drug distribution channels, and form close cooperation to cope with the market and complement with each other's advantages. We will, according to different target hospitals, design suitable transparent two-way value-added service systems that focus on academic research and clinical trials, and establish new partnerships with hospitals on the basis of mutual benefits.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### PROSPECTS *(continued)*

6. Strengthen the cooperation with large pharmaceutical companies that are abundant in resources and have strong comprehensive strength. We will firmly grasp the cooperation opportunity with the National Vaccine and Serum Institute (北京生物製品研究所). While ensuring that three types of product including “Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)” can be transferred to the production base in Guizhou and commence production on schedule, we will closely cooperate with the China National Biotech Group, in vaccine production and plasma products and other aspects. At the same time, we will cooperate with various outstanding companies, with a view to implementing mergers, acquisitions and reorganisations within the medicine and general healthcare industries, and cooperate to set up investment entities or funds, and to expand the source of projects and increase investments, to make up any shortcoming in the Group’s business and to generate new sources of profit.
  
7. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### PROSPECTS *(continued)*

8. Effectively integrate internal human resources and set up excellent research and development, production and marketing teams on the traditional Chinese medicine, bio-pharmaceutical products and technology and healthcare products platforms. We will also place more efforts in recruiting high-calibre talents 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.
9. 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 in 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.
10. Grasping valuable opportunities from market adjustment and falling prices of assets and increase investments in merger and acquisition, to promote the perfection of the product line and production chain of the Group and to shape our core competitiveness.

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, protect ourselves against risks and strive to reward our shareholders with excellent business performance.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2013, the Group had unpledged cash and bank balances of approximately HK\$2,467.6 million (30 June 2013: approximately HK\$2,799.4 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 0.6% (30 June 2013: approximately 0.6%). Net current assets was approximately HK\$2,927.4 million (30 June 2013: approximately HK\$3,208.4 million) and the current ratio was maintained at the level of approximately 6.0 (30 June 2013: approximately 10.4) as at 31 December 2013.

The finance costs of the Group for the Period amounted to approximately HK\$0.8 million (corresponding period in 2012: approximately HK\$1.3 million), representing approximately 0.1% (corresponding period in 2012: approximately 0.1%) of the Group's total revenue and there is no significant change in finance costs over the corresponding period in 2012.

### **CONTINGENT LIABILITIES**

As at 31 December 2013, the Group did not have any material contingent liabilities (30 June 2013: Nil).

### **BANK BORROWINGS**

As at 31 December 2013, the Group had outstanding bank loans of approximately HK\$25.6 million from the banks in the PRC (30 June 2013: approximately HK\$25.1 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 2013, the Group's bank borrowings were secured by certain prepaid land lease payments and buildings of the Group.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **SEASONAL OR CYCLICAL FACTORS**

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

### **FOREIGN EXCHANGE EXPOSURE**

During the Period, the Group mainly generated revenue and incurred costs in Renminbi. 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.

### **COMMITMENTS**

As at 31 December 2013, the Group had contracted commitments of approximately HK\$0.7 million (30 June 2013: approximately HK\$0.7 million) and approximately HK\$75.1 million (30 June 2013: approximately HK\$74.2 million) in respect of purchases of technical knowhow/patent and purchase of property, plant and equipment respectively. As at 31 December 2013, the Group also had capital expenditure authorised but not contracted for in respect of purchase of properties, plant and equipments amounted to approximately HK\$849.0 million (30 June 2013: approximately HK\$838.6 million).



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **EMPLOYEES, TRAINING AND REMUNERATION POLICIES**

As at 31 December 2013, the Group had a total of 1,024 employees (corresponding period in 2012: 1,065), of whom 1,015 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\$20.3 million (corresponding period in 2012: approximately HK\$19.2 million). Staff costs of the Group accounted for approximately 1.5% of the Group's revenue (corresponding period in 2012: approximately 1.9%) during the Period. The Group participates in retirement benefit schemes for its staff both in Hong Kong and the PRC.

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

### **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the Period (corresponding period in 2012: 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 2013, 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 ("**Model Code**"), 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	865,048,746 shares (L) (Note 2)	27.11%
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM")	Interest of controlled corporation	5% (L) (Note 3)	5%
Mr. Tarn Sien Hao	The Company	Beneficial owner	69,120 shares (L)	0.002%
Professor Kung Hsiang Fu	The Company	Beneficial owner	4,587,264 shares (L)	0.14%

## 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. Hon Yiu Ming, Matthew	The Company	Beneficial owner	280,000 shares (L)	0.009%

#### 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.
2. These 865,048,746 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.
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 2013, 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 27,000,000 share options outstanding under the Share Option Scheme (the "**Scheme**"), which represented approximately 0.66% 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 27,000,000 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 2013	Granted during the Period	Exercised during the Period	Cancelled or lapsed during the Period	At 31 December 2013				
<b>Directors</b>									
<i>Executive</i>									
Mr. Zhang Peter Y.	2,736,000	-	(2,736,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	144,000	-	(144,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.40	1.35
	<u>2,880,000</u>	<u>-</u>	<u>(2,880,000)</u>	<u>-</u>	<u>-</u>				
Mr. Deng Jie	2,736,000	-	(2,736,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	144,000	-	(144,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.40	1.35
	<u>2,880,000</u>	<u>-</u>	<u>(2,880,000)</u>	<u>-</u>	<u>-</u>				
Mr. Long Xian Feng	2,736,000	-	(2,736,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	144,000	-	(144,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.40	1.35
	<u>2,880,000</u>	<u>-</u>	<u>(2,880,000)</u>	<u>-</u>	<u>-</u>				
Mr. Zhou Chong Ke	2,736,000	-	(2,736,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	144,000	-	(144,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.40	1.35
	<u>2,880,000</u>	<u>-</u>	<u>(2,880,000)</u>	<u>-</u>	<u>-</u>				
<i>Independent Non-executive</i>									
Professor Kung Hsiang Fu	2,736,000	-	(2,736,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	144,000	-	(144,000)	-	-	3 October 2012	3 October 2012 to 2 October 2014	1.40	1.35
	<u>2,880,000</u>	<u>-</u>	<u>(2,880,000)</u>	<u>-</u>	<u>-</u>				
	<u>14,400,000</u>	<u>-</u>	<u>(14,400,000)</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 2013	Granted during the Period	Exercised during the Period	Cancelled or lapsed during the Period	At 31 December 2013				
Other employees (Note(c))	5,904,000	-	(5,904,000)	-	-	28 July 2011	28 July 2011 to 27 July 2013	1.4525	1.48
	<u>5,904,000</u>	<u>-</u>	<u>(5,904,000)</u>	<u>-</u>	<u>-</u>				
	<u>20,304,000</u>	<u>-</u>	<u>(20,304,000)</u>	<u>-</u>	<u>-</u>				

#### Notes:

- (a) 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 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.
- (b) 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.
- (c) 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 2013, 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>	865,048,746 (L)	Beneficial owner	27.11%
Liu Yu <i>(Note 3)</i>	865,048,746 (L)	Interest of spouse	27.11%
Haw Par Pharmaceutical Holdings Pte. Ltd	485,968,780 (L)	Beneficial owner	15.23%
Haw Par Corporation Limited <i>(Note 4)</i>	485,968,780 (L)	Interest of controlled corporation	15.23%
Atlantis Capital Holdings Limited <i>(Note 5)</i>	228,720,000 (L)	Interest of controlled corporation	7.17%
Liu Yang <i>(Note 6)</i>	228,720,000 (L)	Interest of controlled corporation	7.17%
Kingston Finance Limited	342,720,000 (L)	Person having a security interest in Shares	10.74%
Ample Cheer Limited <i>(Note 7)</i>	342,720,000 (L)	Interest of controlled corporation	10.74%
Best Forth Limited <i>(Note 8)</i>	342,720,000 (L)	Interest of controlled corporation	10.74%
Chu Yuet Wah <i>(Note 9)</i>	342,720,000 (L)	Interest of controlled corporation	10.74%

## **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 228,720,000 Shares of 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 2013, 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.

## **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.



**ADDITIONAL INFORMATION** *(continued)*

**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. 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, 12 February 2014