



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 2014/15



THE MISSION

Strive to be the leading enterprise specialising in traditional Chinese medicine (including mainly gynecological medicine), bio-pharmaceutical products, biotechnology as well as medical services in macro healthcare industry in 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 alternate*)
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 alternate*)

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 alternate*)

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
22/F, CITIC Tower
1 Tim Mei Avenue
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
Level 22, Hopewell Centre
183 Queen's Road East
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 2014 (“**Period**”) together with the comparative figures for the corresponding period in 2013 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 of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 31 December	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	3	1,124,090	1,363,601
Cost of sales		(266,180)	(320,444)
Gross profit		857,910	1,043,157
Other income		13,302	6,146
Selling and distribution expenses		(441,894)	(705,529)
Administrative expenses		(56,989)	(42,844)
Finance costs	5	(1,153)	(783)
Profit before tax		371,176	300,147
Income tax expense	6	(63,528)	(45,330)
Profit for the Period	7	307,648	254,817
Dividend	8	–	–



CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

	For the six months ended	
	31 December	
	2014	2013
	(Unaudited)	(Unaudited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ATTRIBUTABLE TO:		
Owners of the Company	298,860	247,293
Non-controlling interests	8,788	7,524
	<u>307,648</u>	<u>254,817</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		(Restated)
Basic	<u>HK7.3 cents</u>	<u>HK6.5 cents</u>
Diluted	<u>HK7.3 cents</u>	<u>HK6.5 cents</u>



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>307,648</u>	<u>254,817</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>(50,910)</u>	<u>46,549</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>256,738</u></u>	<u><u>301,366</u></u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>250,119</u>	<u>289,637</u>
Non-controlling interests	<u>6,619</u>	<u>11,729</u>
	<u><u>256,738</u></u>	<u><u>301,366</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2014 (Unaudited) Notes	30 June 2014 (Audited)
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,089,695	472,024
Prepaid land lease payments	28,546	28,964
Intangible assets	106,730	123,110
Deferred expenditure	51,221	51,651
Goodwill	110,273	110,273
Investments in joint ventures	18,883	18,885
Investment in an associate	368,843	370,557
Deposits	1,064,375	959,313
Deferred tax assets	33,835	34,202
	<u>2,872,401</u>	<u>2,168,979</u>
Total non-current assets		
CURRENT ASSETS		
Inventories	71,426	43,239
Trade receivables	701,535	917,018
Prepayments, deposits and other receivables	541,855	17,293
Tax recoverable	5,467	5,523
Cash and cash equivalents	2,029,234	2,725,335
	<u>3,349,517</u>	<u>3,708,408</u>
Total current assets		
CURRENT LIABILITIES		
Trade payables	50,636	59,494
Other payables and accruals	178,358	121,320
Obligation under a finance lease	–	31
Interest-bearing bank borrowings	37,479	37,794
Tax payable	197,914	173,498
Dividend payable	147,441	–
	<u>611,828</u>	<u>392,137</u>
Total current liabilities		
NET CURRENT ASSETS	<u>2,737,689</u>	<u>3,316,271</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>5,610,090</u>	<u>5,485,250</u>



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

	31 December	30 June
	2014	2014
	(Unaudited)	(Audited)
Notes	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	48,691	48,944
Deferred income	9,994	12,598
	<u>58,685</u>	<u>61,542</u>
Total non-current liabilities	58,685	61,542
Net assets	5,551,405	5,423,708
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Issued capital	12 409,558	408,408
Reserves	4,932,368	4,812,440
	<u>5,341,926</u>	5,220,848
NON-CONTROLLING INTERESTS	209,479	202,860
	<u>5,551,405</u>	<u>5,423,708</u>
TOTAL EQUITY	5,551,405	5,423,708

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company										Non-controlling interests	Total equity
	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		
	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 2014	408,408	1,417,112	46,959	100,781	526,515	7,992	(8,410)	2,574,464	147,027	5,220,848	202,860	5,423,708
Profit for the Period	-	-	-	-	-	-	-	298,860	-	298,860	8,788	307,648
Exchange differences on translation of foreign operations	-	-	-	-	(48,741)	-	-	-	-	(48,741)	(2,169)	(50,910)
Total comprehensive income for the Period	-	-	-	-	(48,741)	-	-	298,860	-	250,119	6,619	256,738
Issue of shares upon exercise of share options	1,150	20,654	-	-	-	(3,404)	-	-	-	18,400	-	18,400
Final 2014 dividends declared	-	(414)	-	-	-	-	-	-	(147,027)	(147,441)	-	(147,441)
At 31 December 2014	<u>409,558</u>	<u>1,437,352</u>	<u>46,959</u>	<u>100,781</u>	<u>477,774</u>	<u>4,588</u>	<u>(8,410)</u>	<u>2,873,324</u>	<u>-</u>	<u>5,341,926</u>	<u>209,479</u>	<u>5,551,405</u>
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>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	527,243	52,756
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,210,664)	(435,618)
NET CASH INFLOW FROM FINANCING ACTIVITIES	17,247	26,962
NET DECREASE IN CASH AND CASH EQUIVALENTS	(666,174)	(355,900)
Cash and cash equivalents at beginning of period	2,725,335	2,799,436
Effect of foreign exchange rate changes, net	(29,927)	24,092
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,029,234	2,467,628
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,029,234	2,467,628



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2014 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 (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 30 June 2014, 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 2014 annual financial statements of the Group for the year ended 30 June 2014.



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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i>
HKAS 27 (2011) Amendments	Amendments to HKAS 27 <i>Separate Financial Statements</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting Levies</i>
HK(IFRIC)-Int 21 <i>Annual Improvements 2010–2012 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014
<i>Annual Improvements 2011–2013 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014

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 2015 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 net invoiced value of goods sold, after allowances for returns and trade discounts, income from hospital management services, and income from supply chain business from sales of medicines to the hospitals with "Trust – Invest – Operate – Transfer" ("TIOT") agreements. The following is an analysis of the Group's revenue:

	For the six months ended	
	31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing and sale of pharmaceutical products	1,101,493	1,262,190
Trading of pharmaceutical products	1,005	101,411
Hospital management services	6,615	–
Supply chain business from sales of medicines to hospitals with TIOT agreements	14,977	–
	<u>1,124,090</u>	<u>1,363,601</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

4. Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the chief operating decision maker (i.e. executive Directors of the Company) (“CODM”) for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments.

- (i) Pharmaceutical products: the research and development, manufacture, sale and trading of pharmaceutical products including traditional Chinese medicines, bio-pharmaceutical products and other healthcare-related products;
- (ii) Hospital management: the provision of management service to hospitals under TIOT agreements; and
- (iii) Supply chain business: sales of pharmaceutical products, medical consumables and medical devices to hospitals under TIOT agreements.

(a) Segment results

For the purposes of assessing segment performance and allocating resources among the segments, the CODM monitors the results attributable to each reportable segment on the following base.

Revenue and expenses are allocated to reportable segments with reference to the revenue generated by those segments and the expenses incurred by those segments.

The measure used for reporting segment profit is profit from operations.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

4. Segment information (continued)

(a) Segment results (continued)

Information regarding the Group's reportable segments as provided to the CODM for the purposes of segment performance assessment and resources allocation for the Period is set out below:

	For the six months ended 31 December 2014			
	Manufacture, sale and trading of pharmaceutical products (Unaudited) HK\$'000	Hospital management (Unaudited) HK\$'000	Supply chain business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reportable segment revenue	1,102,548	6,615	14,927	1,124,090
Segment profit	<u>375,933</u>	<u>3,396</u>	<u>1,498</u>	<u>380,827</u>

(b) Reconciliations of reportable segment profit

	For the six months ended 31 December 2014 (Unaudited) HK\$'000
Reportable segment profit	<u>380,827</u>
Finance costs	(1,153)
Unallocated expenses	<u>(8,498)</u>
Consolidated profit before tax	<u><u>371,176</u></u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

4. Segment information (continued)

No geographical segment information is presented as the Group's revenue is solely derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Revenue of approximately HK\$152,540,000 (2013: approximately HK\$366,408,000) was derived from sales to a single customer during the Period, including sales to a group of entities which are known to be under common control with that customer.

5. Finance costs

	For the six months ended 31 December	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest expenses on:		
– bank borrowings repayable within five years	1,153	775
– finance lease charges	–	8
	<hr/>	<hr/>
Total borrowing costs charged to the condensed consolidated income statement	<u>1,153</u>	<u>783</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

6. Income tax

	For the six months ended	
	31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China		
– Charge for the Period	<u>63,528</u>	<u>45,330</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 (“**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%.

Guiyang De Chang Xiang Pharmaceutical Company Limited (“**DCX**”), a subsidiary of the Company, was classified as an approved High and New Technology Enterprise in the PRC. Accordingly, DCX is entitled to a preferential PRC corporate income tax rate of 15%. Moreover, pursuant to an approval received from the government of the Tibet Autonomous Region (西藏自治區人民政府) on 1 January 2011, Tibet Changdu Kangyuan Pharmaceutical Company Limited* (西藏昌都地區康源醫藥有限公司), a subsidiary of the Company, was approved to be entitled to a PRC 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the Period arrived at after charging and (crediting):		
Amortisation of intangible assets	16,608	17,154
Amortisation of prepaid land lease payments	405	567
Cost of inventories sold	266,180	320,444
Staff costs (including directors' emoluments)	23,670	20,273
Depreciation of property, plant and equipment	7,960	7,996
Interest income	(10,782)	(3,604)

8. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2014 (corresponding period in 2013: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

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:

	For the six months ended 31 December	
	2014	2013
	(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	298,860	247,293
	For the six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (2013: restated to reflect the effect of the 2013 bonus issue)	4,088,363	3,187,750
Effect of dilutive ordinary shares in respect of share options	22,715	2,648
Weighted average number of ordinary shares for the purpose of diluted earnings per share (2013: restated to reflect the effect of the 2013 bonus issue)	4,111,078	3,190,398



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

10. Trade 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 four to six months. The Group does not hold any collateral or other credit enhancements over its trade receivables balances.

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

	31 December 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Within 3 months	343,717	317,219
3 months to 6 months	215,690	165,582
6 months to 1 year	134,873	433,599
Over 1 year	7,255	618
	<u>701,535</u>	<u>917,018</u>

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 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Within 3 months	42,454	41,309
3 months to 6 months	1,109	5,089
6 months to 1 year	2,712	9,826
Over 1 year	4,361	3,220
	<u>50,636</u>	<u>59,494</u>



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 2014 and at 31 December 2014	<u>8,000,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
At 30 June 2014	4,084,077,940	408,408
Issue of shares upon exercise of share options (<i>Note (a)</i>)	<u>11,500,000</u>	<u>1,150</u>
At 31 December 2014	<u>4,095,577,940</u>	<u>409,558</u>

Note:

- (a) During the Period, an aggregate of 11,500,000 share options had been exercised by certain directors of the Company at a subscription price of HK\$1.60 per share for a total consideration of approximately HK\$18,400,000, resulting in an issue of 11,500,000 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 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	–	362,865
Prepaid land lease payment	62,850	62,990
Technical know-how	723	731
	<u>63,573</u>	<u>426,586</u>
Authorised, but not contracted for:		
Property, plant and equipment	232,763	235,278
	<u>296,336</u>	<u>661,864</u>

In addition, the Group's share of the joint venture's own capital commitments, which are not included in the above, is as follows:

	31 December 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Contracted, but not provided for	<u>3,240</u>	<u>3,247</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

14. Operating lease commitments

The Group as a lessee

The Group leases certain 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:

	31 December 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Within one year	1,429	2,028
In the second to fifth years, inclusive	1,276	1,720
	<u>2,705</u>	<u>3,748</u>

15. Contingent liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities (30 June 2014: Nil).

16. Events after the reporting period

On 2 February 2015, the Company entered into a convertible bonds subscription agreement with Design Time Limited and Driven Innovation Limited for the issuance of convertible bonds of the principal amount of up to HK\$620,000,000. The convertible bonds are convertible into new ordinary shares of the Company of par value of HK\$0.10 each at an initial conversion price of HK\$2.2468 (subject to adjustments). Further details of the convertible bonds are set out in the Company's announcements dated 2 February 2015, 12 February 2015 and 18 February 2015. The transaction was completed on 17 February 2015.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture and sale of traditional Chinese medicines, and bio-pharmaceutical medicines in the People's Republic of China ("**PRC**" or "**China**"), and plans to involve in the field of medical services investment and management. By leveraging on the vast expanse of fast developing macro healthcare market in China, the Group capitalised on the existing operational resources previously established in terms of products, technologies, marketing, talents, management and branding and continued to increase our market share and explore new growth opportunities so as to create greater returns for the Company's shareholders ("**Shareholders**") during the Period.

MARKET REVIEW

During the Period, costs and expenses of medical and health care and revenue from sales of pharmaceuticals in the PRC continued to maintain a high growth. According to the statistics from the National Bureau of Statistics of the PRC and the National Health and Family Planning Commission of the People's Republic of China, the total costs and expenses of medical and health care in the PRC were Renminbi ("**RMB**") 3,668.0 billion in 2014, representing a year-on-year increase of 15.1%; from July to December 2014, sales revenue of PRC pharmaceutical industry reached RMB1,252.8 billion compared with a sales revenue of RMB2,332.5 billion for the full year, representing a year-on-year increase of 13.3%; a total profit of RMB232.2 billion was achieved, representing a year-on-year increase of 12.1%. Continuous expansion of the PRC medical and health care and pharmaceutical market was driven by the following factors. Firstly, the pace of population aging has been accelerating, the elderly population over 65 has exceeded 200 million, representing almost 15% of the total population, and common geriatric diseases, such as cancer, cardiovascular diseases, diabetes mellitus and neurological disorders, ranked top in terms of morbidity rate and the relevant treatment costs. Secondly, the coverage of national medical insurance system, including basic medical insurance system for employees, basic medical insurance system for urban residents and new rural cooperative medical system, has reached 95%, and governmental subsidies and the percentage of individual medical care financing are increasing at a faster pace. Thirdly, the government has been continuously enhancing its support to public healthcare, hierarchical diagnosis and treatment system has become more comprehensive while medical conditions significantly improved. Fourthly, the demand for healthcare services kept rising due to increasing affordability of urban residents. However, the growth rate of the pharmaceutical industry continued to slow down due to the impact of the overall downward trend of China's gross domestic product ("**GDP**"), which was faster than that of GDP growth, and it was still leading the way when compared with other industries.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MARKET REVIEW *(continued)*

During the Period, some new features were found in the medical and health care industry and the pharmaceutical industry in the PRC. The Chinese Government encouraged private capital to be invested in the development of medical cause, supported investment of private capital on various hospitals, community health services institutions, convalescent hospitals and other medical institutions, and involved in the changeover and reform of public hospitals. Accordingly, hospitals have become a hot spot for investment from all parties; merger and reorganisation of pharmaceutical enterprises have intensified, but the subject of merger and reorganisation has changed from foreign pharmaceutical conglomerates in the past to domestically listed companies. During the Period, there were approximately 90 listed companies either involving in merger projects or engaged in merger business (“M&A”), with a M&A amount of nearly RMB100 billion; various law enforcement agencies carrying out specific actions in the fight against commercial bribes in the sale and purchase of pharmaceutical products to promote standardised, healthy and sustainable development of pharmaceutical enterprises. The time limit requirements under the new Good Manufacturing Practice (“GMP”) accreditation and substantial increase in fixed asset investments have caused some pharmaceutical enterprises forced out the pharmaceutical manufacturing field. However, in the long run, this will be conducive for improving the concentration degree of the pharmaceutical manufacturing industry and promoting the upgrade of the pharmaceutical manufacturing industry and the modernisation and internationalisation of pharmaceutical preparations; as the National Development and Reform Commission has cancelled the pharmaceutical pricing policy under the control of the government, drug tenders have become the government’s key measures to control drug prices and to regulate the market. Provincial markets, such as Zhejiang and Hunan, have lowered prices of the products listed in the tendering catalogue mainly through administrative methods; the entry into the essential drug list and national medical insurance catalogue serves as a passport for general products to become major products in the pharmaceutical market; the increased investments in new products and technologies across the industry and the complicated and time-consuming review and assessment procedures of new drugs in the PRC have increased the research and development cost of new drugs and delayed their market launch, resulting in higher actual risks.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MARKET REVIEW *(continued)*

During the Period, the “Arrangement of Key Work of Deepening the Reform of Medical and Healthcare System in 2014” (深化醫藥衛生體制改革2014年重點工作任務) and the “12th Five-Year Plan in China Pharmaceutical Industry” (中國醫藥工業十二五規劃) have been implemented, which mainly provide that public hospitals should be the focus in the reform, non-state participation in healthcare provision should be facilitated, multiple-site physician practice should be accelerated, the policy and environment for non-state participation in healthcare provision should be optimised and the linkage of medical care, medical insurance and pharmaceuticals should be thoroughly promoted; the transformation, upgrade and rapid development of the pharmaceutical industry should be facilitated, and the pace of drug innovation, especially bio-technical medicine, should be accelerated. Among these medicines, neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products were listed in the first batch of the key development areas. The Plan also encouraged the central-western region to develop distinctive pharmaceutical manufacturing industry, and strengthening of the reservation, development as well as application of Chinese medicine and ethnic medicine resources. At the same time, it stipulated to enhance the quality and safety standards of pharmaceutical products, reinforced the major responsibility of enterprises in terms of quality control and encouraged the enterprises to perfect its quality management system.

Undoubtedly, the medical and health care and pharmaceutical market has entered into a great era. Enterprises with strong development prospects, market oriented development strategies, comprehensive resource advantages and needs that meet local, social and economic development, unique product mix and leading technologies, strong and well-established nationwide end-user sales and marketing network and stronger organising and ability to execute will eventually outrun other competitors in the market and become a large home-grown health service enterprise which is well-equipped to compete internationally. Meanwhile, the medical service market in China is fully open, and its market capacity and high growth prospects are unanimously considered to be promising. If this rare historical opportunity is seized to integrate resources rapidly and to invest boldly, giant companies may be developed.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 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 (“**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 (“OTC”) drugs. Maintaining a steady growth of traditional Chinese medicines specialising in gynecological pharmaceutical products, together with developing bio-pharmaceutical medicines technologies, has formed a new structure for the Group’s future development. Meanwhile, the Group actively explores investment in public hospitals and the overall acquisition of businesses of state-owned hospitals. Progress has been made in the integration of medical resources of prefectural-level cities in Mainland China with the TIOT (“**Trust, Investment, Operation and Transfer**”) model. Furthermore, the Group strictly followed the GMP production standards and processes, and focused on and upheld product quality. With the Group’s ability to monitor expenditures, maintain 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, thereby 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\$1,124.1 million (corresponding period in 2013: approximately HK\$1,363.6 million), of which approximately HK\$885.7 million (representing approximately 78.9% of the Group's total revenue) was derived from traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing a decrease of approximately 7.2% as compared to the corresponding period last year. During the Period, sales in bio-pharmaceutical products were approximately HK\$215.8 million (representing approximately 19.2% of the Group's total revenue), representing a decrease of approximately 30.0% as compared to the corresponding period last year. Approximately HK\$6.6 million of the Group's revenue during the Period was attributable to hospital management business and approximately HK\$15.0 million of the Group's revenue during the Period was attributable to supply chain business from sales of medicines to hospitals with TIOT agreements. Approximately HK\$1.0 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\$298.9 million, representing an increase of approximately 20.9% as compared to the corresponding period last year.

During the Period, the decrease in the Group's revenue as compared to that of the previous period was mainly due to adjustment to sales strategy which resulted in the settlement of several pharmaceutical products based on base price.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

NEW BUSINESS EXPANSION

The Group rapidly expanded into the medical service segment and invested in public hospitals and state-owned hospitals with TIOT model and by merger and acquisition. During the Period, the Group entered into the framework cooperation agreement with each of Liupanshui and Tongren Municipal governments of Guizhou Province, pursuant to which, the Group was authorised to operate the municipal public hospitals and major county-level public hospitals within the jurisdiction. Currently, the Group has reached agreement with four hospitals including 六盤水市人民醫院 (unofficial translation being Liupanshui City People's Hospital) and 銅仁市人民醫院 (unofficial translation being Tongren City People's Hospital) in respect of the consolidation of supply chain management, joint construction of advantageous courses, development of massive information service and other entrust related matters. The Group has also entered into agreements in respect of joint construction of new hospitals and has commenced to specifically implement them. In addition, the Group is also managing to finalise cooperation agreements with almost other more than 10 public hospitals and state-owned hospitals. Apart from this, the Group is in negotiation with several local governments and public hospitals in Mainland China over the healthcare issue including medical service investment projects. The Group has taken a major step forward in the development of medical service segment.



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, 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” (間充質幹細胞項目) in Guizhou Province, and closely liaised and cooperated with the Chinese Academy of Science (中國科學院), National Vaccine & Serum Institute (北京生物製品所) 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.. “Qijiao Shengbai Capsules (芪膠升白膠囊)” was granted as a major national science and technology project in 2014. 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. “Human Nerve Growing Factor Injection (人神經生長因子注射液)” passed the drug registration inspection conducted by National Institute for Food and Drug Control, and then was officially submitted to China Food and Drug Administration for application of drug production license at the end of 2014, where it was given priority in review and approval, ranking relatively prior position among biological pharmaceuticals group.

The opening trend of the concentrated TCM granules (中藥配方顆粒) market has become gradually clear. As such, the Group is making active cooperation with the relevant research & development institutions in Beijing to carry out study on acquisition sources, crafts and standards of medicine materials for 200 normal concentrated TCM granules. At present, the relevant works are being progressed smoothly.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Period, for the production facilities construction, the construction work of the Group's phase one plant of the 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 been commenced, and the major equipment had been ordered, while the purification, decoration and the equipment installation of production workshops are underway. The facilities construction was designed as thirteen production workshops for seven types of dosage with a total gross floor area of approximately 140,000 square metres. After completion, such facilities can handle up to 10,000 tonnes of Chinese medicine, with an annual production value of RMB8 billion.

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)" plant in Guilin was completed, and the major equipment had been ordered, while the purification decoration of production workshops is underway. The project included newly-built raw material and pharmaceutical production workshops with an area of 11,000 square metres and advanced overseas equipment was introduced. Projects of "Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)", "Human Placenta Pills (人胎盤片)" and "Human Placenta Tissue Fluid Injection (人胎盤組織液注射劑)" were officially launched and major equipment have been ordered. Among them, "Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)" was granted a production license by Guizhou Food and Drug Administration (貴州省藥監局).

For cost control, the Group will explore its potentials, pay more attention to details and endeavour to control the 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 the 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 respect of budget management, staff costs of different departments and subsidiaries were subject to authorisation and approval and the key areas of the approval were reviewed. These measures have effectively mitigated the Group's pressure as a result of rising costs.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

During the Period, the Group submitted about 27 products and 34 specifications in 3 open tenders organised by various provincial governments, out of which a total of 22 products and 27 specifications were accepted. Among the products that successfully won the bidding, the Group almost maintained stable price for its exclusive products. As at 31 December 2014, a total of 81 products and specifications of the Group were included in the National Medical Insurance Catalogue, four products of which were exclusive products and 31 products of which were also included in the National Essential Drug List. In addition, there were other 11 exclusive products being included in 14 Provincial Essential Drug Lists and Medical Insurance Catalogues in total.

PRODUCT AUTHORISATION AND HONOR

During the Period, the Group applied for invention patents for three items, all of which have been authorised; three 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 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)” and will be hopeful to be credited. Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) was awarded the title of “High-tech Enterprise (高新技術企業)” by Guizhou Science and Technology Bureau (貴州省科技廳).



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

INVESTMENT AND CO-OPERATION

During the Period, the Group entered into framework agreement with China National Biotec Group Company Limited (a subsidiary of China National Pharmaceutical Group Corporation (Sinopharm)), being the largest manufacturer of biological vaccine and blood products in China, hereinafter referred to as the **“National Biotec Group”**), pursuant to which, it was agreed by both parties that: both parties will jointly construct a biological pharmaceutical manufacturing and technology industry base in Guizhou, conduct cooperation in the production of blood products and placenta products, and restore and be equip with corresponding blood collection stations; the National Biotec Group will provide assistance in Beijing in handling the administrative approval issues for relevant products, such as “Human Nerve Growing Factor Injection (人神經生長因子注射劑)” and “Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)”; the Group shall be given the priority of being invested if the National Biotec Group undergoes hybrid ownership reform; the Group will act as the distributor of the National Biotec Group for the promotion of “hepatitis vaccines” and other products across the domestic markets.

TEAM BUILDING

During the Period, the Group continued to build a professional, diligent and responsible team with entrepreneur and innovative spirit.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

Driven by internal factors such as aging population, urbanisation and upgraded consumption as well as continuous expansions brought by the new healthcare reform, the pharmaceutical market is developing vigorously. Along with the growth in medical demand, the total healthcare expenditure has been increasing annually, which has risen by 4.2 times from RMB759 billion in 2004 to RMB3,186.8 billion in 2013 with an annual growth rate of 16.75%. The percentage of total healthcare expenditure to GDP is 5.5%, much lower than that of 17.9% in the United States and the average level of the world of 9.7%, and ranked 147 on the lower level among the 193 members of the World Health Organization. With the launch and implementation of new healthcare reform plan, relevant policies favourable to the medical service industry have been promulgated and reforms targeting at public hospitals have been accelerated, creating opportunity for social capitals to enter the medical service industry. It has become the general trend to carry out the relevant integration policy of promoting reform and innovations in the medical service industry with social capitals to secure rapid development of local medical service industry market in pursuant with the guidance of national industrial policy under the leadership of the government.

In addition, relevant information also shows that the PRC became 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 with unique and innovative products and technology in the PRC pharmaceutical market to enjoy the rapid growth of the pharmaceutical market in the PRC, and building up 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 the traditional synthetic chemical drugs, biopharmaceuticals, supported by more in-depth research, boasting more extensive therapeutic functions and advantages, more room for innovative pharmaceutical designs and dosages improvement, and more responsive to new diseases, thus, these products can provide an industry-wide re-pricing opportunity. It is estimated that bio-pharmaceutical products will account for more than one-third of the total drug sales by 2020. In line with this trend, the "12th Five-Year Plan in China Pharmaceutical Industry (中國醫藥工業十二五規劃)" introduced in the PRC in 2012, gave for priority to the bio-pharmaceutical and biotechnological industry and promulgated preferential policies to research and development, technological transformation and market access. Optimistic outlook for the development of bio-pharmaceutical and biotechnological industry is predictable.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

The Directors consider that, against the backdrop of the continuous improvement of the health care and pharmaceutical market and under the guidance of the leaping-forward development plan, the Group will continue to promote the established overall development strategies. These strategies include consolidating the internal resources system, increasing funds and human resources, and accelerating the development of the medical service industry mainly in the TIOT model, supplemented by the acquisition and reform of state-owned hospitals; 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 focus on the exclusive products in the National Medical Insurance Catalogue, so as to sustain the market development of OTC products; devoting all efforts to ensure the commencement of production of placenta products such as “Human Nerve Growing Factor Injection (人神經生長因子注射液)” and “Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)” in expected time; undergoing 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; structuring the management system that can positively reflect the estimated market value of the Group by the overall development strategy for general health, and enhance and safeguard Shareholders’ interests.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

The specific missions of the Group are to:

1. follow the guidance of the national industrial policy, we will seize the opportunities of diversification in the medical service industry by deploying our resources effectively and adhering to the principle of "eight invariable conditions (八不變)", so as to rapidly facilitate the cooperation of hospitals at provincial city levels. By capitalising on supply chain integration, we will fast achieve breakthroughs in scale of sales and profits. By offering value added services through the establishments, such as the oncology department, physical examination centre, and high-end reproductive centre, supported by preponderant disciplines, we will form our readily replicable and integrated hospital investment and management system. Meanwhile, we will establish our personal health management centre in the HMO model in Liupanshui City and Tongren City and explore the possibilities of introducing advanced medical service pattern in European countries and U.S.A in the existing medical care platform of the Group, and make use of the system to attract large yet loyal middle- to high-end consumers of health care services. Under our diversified business model, we will develop our medical services business, which is vital to the success of the Group's business and becomes our profit growth division. We will also actively explore medical services as our core platform, so as to develop an integrated retirement and tourism business model. Furthermore, we will enhance the overall operating efficiency and performance of our hospitals by application of IT technologies under cloud medical model: to build our digital hospital management system, improve our management process and enhance our operating efficiency with electronic medical record as the core; we will build our regional big data application platform by facilitating the cooperation of hospitals at provincial city levels, constantly develop and optimise software support system by reference to the needs of entrusted hospitals, and offer customised services, such as long-distance clinic consultation, specialty referrals, online education, hospital policy and health management; we will innovate on and launch our mobile health care monitoring system and promote our sophisticated management system to provide differential medical care services in the region by establishing the big data base as our operation and management centre.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

- focus on marketing to further increase 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 well-prepared to promote 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 accelerated 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. OTC drugs marketing: we continue to establish “Fuke Zaizaowan (婦科再造丸)” 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, with the view to increase single-store sales by various means. We will expedite the launch of our new exclusive products, such as “Duzhong Butiansu Capsules and Pills (杜仲補天素膠囊和丸劑)” and “Tianma Lingzhi Mixture (天麻靈芝合劑)” and fast distribute to the domestic markets by combination of independent marketing and external cooperation. In addition, through the closer cooperation with established beauty parlors and professional chain stores, we aim to secure rapid growth of “Golden Peptides (金紫肽)” line of products in the high-end health care products market.
- take the opportunity brought by the National Medical Insurance Catalogue update, and leveraging on the Group’s advantages in larger number of exclusive products and principal products, we will use all possibilities to gain government support in all possible ways, to include our advantageous products with independent intellectual property rights, reliable curing effect and those that can be widely applied in the National Medical Insurance Catalogue or Essential Drug List, while seeking to include products yet to be listed in the national catalogue to be included in the provincial catalogue.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

4. closely focus on the tenders of medicines in all provincial markets and ensure successful bidding and the price stability by employing various methods. The Group will highly value its bidding work by leveraging on its major traditional Chinese medicine materials from its own planting base complying with GAP standards, the production base that complies with the latest GMP standards, reasonable production process and stable quality control system, unique products and national medicines, well-cultivated market network, specially assigned staff and other favourable conditions, to ensure this work can be carried out in an orderly, effective and successful manner.

5. accelerate development of new business strategies of the Group following the guidance of the new National GMP Standards, 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), which will be granted the new GMP accreditation and commence production by the end of March 2015. The production base of Guilin will be completed by the end of June 2015. 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 the production base of Guilin will be completed by the end of this year and they will be granted the New GMP accreditation and will commence operation. We strive to complete the placenta product project of "Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)" in the biological base of Guiyang by the end of June 2015. 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 gain GMP accreditation and commence operation. These projects will fully capitalise on the preferential policies promulgated by the government according to the PRC government'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.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

6. according to the Group's research and development plan, we will 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 bioengineering 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 (including capsules) (無糖型黃芪顆粒(含膠囊))" and "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 utilise effectively the PRC government's encouraging innovation fund to finance and make continuous contribution and 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 avoiding the research and development risk practically.
7. 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)*

8. strengthen the cooperation with large pharmaceutical companies that are abundant in resources and have strong comprehensive strength, we will firmly grasp the opportunities from the cooperation with the National Biotec Group to conduct extensive cooperation in the fields of plasma and placenta products, vaccines and others. Meanwhile, we will cooperate with prestigious enterprises, such as Huarong (HK) International Holdings Limited, to diversify our project source and fill the gap in the business of the Group and the government public relations, targeting at investing and operating in the pharmaceutical industry, particularly in the Big Health field. In addition, we will attempt to increase new investment channels by cooperating in establishing an investment entity or fund. We will grasp valuable opportunities from market adjustment and falling asset prices and increase investments and enhance cooperation so as to promote the perfection of the product line and production chain of the Group and to shape our core competitiveness.

9. according to the distinct characteristics of Hong Kong capital market, we will implement market capitalisation management under the guidance of the development strategy for general health. By scheduling regular meetings between management and investors, reporting the results and primary working status of the Group in a timely manner to enhance 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.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

10. effectively integrate internal human resources, we will set up excellent research and development, production and marketing teams for each of 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 hospital investment and management. 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.

11. actively expand the PRC market and enhancing our relationship with the government, we will proactively incorporate the Group's development into the overall domestic economic development layout. By virtue of government support, we will strengthen the integration of public hospitals with city as geographical unit, 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. We will also 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-time 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 2014, the Group had unpledged cash and bank balances of approximately HK\$2,029.2 million (30 June 2014: approximately HK\$2,725.3 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 0.9% (30 June 2014: approximately 0.7%). Net current assets was approximately HK\$2,737.7 million (30 June 2014: approximately HK\$3,316.3 million) and the current ratio was maintained at the level of approximately 5.5 (30 June 2014: approximately 9.5) as at 31 December 2014.

The finance costs of the Group for the Period amounted to approximately HK\$1.2 million (corresponding period in 2013: approximately HK\$0.8 million), representing approximately 0.1% (corresponding period in 2013: approximately 0.1%) of the Group's total revenue and the increase in finance costs over the corresponding period in 2013 is due to increase in average balance of interest-bearing bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities (30 June 2014: Nil).

BANK BORROWINGS

As at 31 December 2014, the Group had outstanding bank loans of approximately HK\$37.5 million from the banks in the PRC (30 June 2014: approximately HK\$38.0 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 2014, the Group's bank borrowings were secured by certain plant and machinery and 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Period, the Group had no material acquisitions and disposals of subsidiaries and associated companies.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	31 December 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	–	362,865
Prepaid land lease payment	62,850	62,990
Technical know-how	723	731
	63,573	426,586
Authorised, but not contracted for:		
Property, plant and equipment	232,763	235,278
	296,336	661,864

In addition, the Group's share of the joint venture's own capital commitments, which are not included in the above, is as follows:

	31 December 2014 (Unaudited) HK\$'000	30 June 2014 (Audited) HK\$'000
Contracted, but not provided for	3,240	3,247



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2014, the Group had a total of 1,045 employees (corresponding period in 2013: 1,024), of whom 1,036 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\$23.7 million (corresponding period in 2013: approximately HK\$20.3 million). Staff costs of the Group accounted for approximately 2.1% of the Group's revenue (corresponding period in 2013: approximately 1.5%) 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 2013: 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 2014, 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 <i>(Note 1)</i>	Approximate percentage of interest
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	1,063,942,495 shares (L) <i>(Note 2a)</i>	25.98%
	The Company	Beneficial owner	3,000,000 shares (L) <i>(Note 2b)</i>	0.07%



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 (Note 1)	Approximate percentage of interest
Mr. Deng Jie	The Company	Beneficial owner	3,000,000 shares (L) (Note 2b)	0.07%
Mr. Long Xian Feng	The Company	Beneficial owner	3,000,000 shares (L) (Note 2b)	0.07%
Mr. Zhou Chong Ke	The Company	Beneficial owner	3,000,000 shares (L) (Note 2b)	0.07%
Mr. Tam Sien Hao	The Company	Beneficial owner	82,944 shares (L)	0.002%
Professor Kung Hsiang Fu	The Company	Beneficial owner	8,504,716 shares (L) (Note 2c)	0.21%
Professor Tso Wung Wai	The Company	Beneficial owner	1,340,000 shares (L)	0.03%
Mr. Hon Yiu Ming, Matthew	The Company	Beneficial owner	1,880,000 shares (L) (Note 2d)	0.05%



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 1,063,942,495 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. All of these options are exercisable at the subscription price of HK\$1.60 per Share at any time during a period of two years commencing from and including 6 January 2014 to 5 January 2016.
- 2c. These 8,504,716 Shares included 3,000,000 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 1,880,000 Shares included 500,000 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.

Save as disclosed above, as at 31 December 2014, 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.

ADDITIONAL INFORMATION (continued)

SHARE OPTION SCHEME

At the date of this report, the Company had 18,600,000 share options outstanding under the Share Option Scheme (the “**Scheme**”), which represented approximately 0.38% 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 18,600,000 additional ordinary Shares.

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				At 31 December 2014	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 2014	Granted during the Period	Exercised during the Period	Cancelled or lapsed during the Period					
Directors									
<i>Executive</i>									
Mr. Zhang Peter Y.	3,000,000	-	-	-	3,000,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Mr. Deng Jie	3,000,000	-	-	-	3,000,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Mr. Long Xian Feng	3,000,000	-	-	-	3,000,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Mr. Zhou Chong Ke	3,000,000	-	-	-	3,000,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
<i>Non-executive</i>									
Mr. Wee Ee Lim	3,000,000	-	(3,000,000)	-	-	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Mr. Tam Sien Hao	3,000,000	-	(3,000,000)	-	-	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
<i>Independent Non-executive</i>									
Professor Kung Hsiang Fu	3,000,000	-	-	-	3,000,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Professor Tso Wung Wai	3,000,000	-	(3,000,000)	-	-	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
Mr. Hon Yiu Ming, Matthew	3,000,000	-	(2,500,000)	-	500,000	6 January 2014	6 January 2014 to 5 January 2016	1.60	1.69
	<u>27,000,000</u>	<u>-</u>	<u>(11,500,000)</u>	<u>-</u>	<u>15,500,000</u>				



ADDITIONAL INFORMATION *(continued)*

SHARE OPTION SCHEME *(continued)*

Notes:

- (a) Pursuant to the Scheme, the exercise price of the share option of HK\$1.60 per Share granted on 6 January 2014 is 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.



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 2014, 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>	1,063,942,495 (L)	Beneficial owner	25.98%
Liu Yu <i>(Note 3)</i>	1,066,942,495 (L)	Interest of spouse	26.05%
Haw Par Pharmaceutical Holdings Pte. Ltd	589,162,536 (L)	Beneficial owner	14.39%
Haw Par Corporation Limited <i>(Note 4)</i>	589,162,536 (L)	Interest of controlled corporation	14.39%
Kingston Finance Limited	411,264,000 (L)	Person having a security interest in Shares	10.04%
Ample Cheer Limited <i>(Note 5)</i>	411,264,000 (L)	Interest of controlled corporation	10.04%
Best Forth Limited <i>(Note 6)</i>	411,264,000 (L)	Interest of controlled corporation	10.04%
Chu Yuet Wah <i>(Note 7)</i>	411,264,000 (L)	Interest of controlled corporation	10.04%



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. 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.
6. 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.
7. 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 2014, 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 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 ("**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 2015