



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)



Hua Han  
Bio-Pharmaceutical



Interim Report  
2006/2007

Interim Report 2006/2007

## **THE MISSION**

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

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## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### *Executive Directors*

Mr. Zhang Peter Y. (*Chairman*)  
Mr. Deng Jie  
Mr. Long Xian Feng  
Mr. Bian Shu Guang  
Mr. Wu Xian Peng

#### *Non-Executive Directors*

Mr. Wee Ee Lim  
(*Mr. Chng Hwee Hong as his alternate*)  
Mr. Tarn Sien Hao

#### *Independent Non-Executive Directors*

Professor Kung Hsiang Fu  
Professor Tso Wung Wai  
Mr. Hon Yiu Ming, Matthew

### **AUDIT COMMITTEE**

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

### **REMUNERATION COMMITTEE**

Professor Kung Hsiang Fu  
(*Chairman of remuneration committee*)  
Professor Tso Wung Wai  
Mr. Hon Yiu Ming, Matthew  
Mr. Deng Jie  
Mr. Wee Ee Lim  
(*Mr. Chng Hwee Hong as his alternate*)

### **COMPANY SECRETARY**

Mr. Zhu Ben Yu (*HKICPA*)

### **QUALIFIED ACCOUNTANT**

Mr. Zhu Ben Yu (*HKICPA*)

### **REGISTERED OFFICE**

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 704, 7th Floor  
Aon China Building  
29 Queen's Road Central  
Hong Kong

### **PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

Bank of China  
Guiyang Branch, Jiaxiu Sub-branch  
Number 9 Xinhua Road  
Guiyang, Guizhou  
PRC

### **LEGAL ADVISERS AS TO HONG KONG LAWS**

Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

### **AUDITORS**

Ernst & Young  
*Certified Public Accountants*  
18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## UNAUDITED INTERIM RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Company**”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 31 December 2006 (“**Period**”) together with the comparative figures for the corresponding period in 2005 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended</b>	
		<b>31 December</b>	
		<b>2006</b>	2005
		(Unaudited)	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
REVENUE	3	<b>366,061</b>	302,435
Cost of sales		<b>(205,096)</b>	(168,602)
		<hr/>	<hr/>
Gross profit		<b>160,965</b>	133,833
Other income and gain		<b>13,419</b>	4,981
Selling and distribution costs		<b>(42,241)</b>	(32,444)
Administrative expenses		<b>(22,621)</b>	(23,146)
Finance costs	5	<b>(16,555)</b>	(5,501)
		<hr/>	<hr/>
PROFIT BEFORE TAX	6	<b>92,967</b>	77,723
Tax	7	<b>(20,733)</b>	(14,350)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		<b>72,234</b>	63,373
		<hr/> <hr/>	<hr/> <hr/>
ATTRIBUTABLE TO:			
Equity holders of the Company		<b>68,094</b>	61,472
Minority interests		<b>4,140</b>	1,901
		<hr/>	<hr/>
		<b>72,234</b>	63,373
		<hr/> <hr/>	<hr/> <hr/>
Dividend		<b>Nil</b>	Nil
		<hr/> <hr/>	<hr/> <hr/>
EARNINGS PER SHARE			
ATTRIBUTABLE TO			
EQUITY HOLDERS OF			
THE COMPANY			
– Basic	8	<b>HK7.7 cents</b>	HK7.1 cents
		<hr/> <hr/>	<hr/> <hr/>
– Diluted	8	<b>HK7.7 cents</b>	HK7.0 cents
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>31 December 2006 (Unaudited) HK\$'000</b>	30 June 2006 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, Plant and equipment		<b>169,989</b>	128,301
Prepaid land lease payments		<b>113,909</b>	100,502
Intangible assets		<b>62,150</b>	13,760
Goodwill		<b>18,865</b>	18,865
Investment in a jointly-controlled entity		–	–
Investment in an associate		<b>100</b>	100
Available-for-sale equity investment	9	–	12,434
Long term deposits		<b>5,215</b>	19,625
Total non-current assets		<b>370,228</b>	293,587
<b>CURRENT ASSETS</b>			
Inventories		<b>28,309</b>	25,064
Accounts and bills receivables	10	<b>270,650</b>	266,027
Prepayments, deposits and other receivables		<b>71,921</b>	65,753
Pledged deposits		<b>7,873</b>	7,517
Cash and cash equivalents		<b>946,171</b>	523,864
Total current assets		<b>1,324,924</b>	888,225
<b>CURRENT LIABILITIES</b>			
Accounts and bills payables	11	<b>74,462</b>	64,468
Tax payable		<b>14,858</b>	8,553
Accrued liabilities and other payables		<b>49,075</b>	46,186
Bank loans		<b>93,819</b>	119,211
Convertible bonds		–	390
Dividend payable		<b>17,615</b>	–
Total current liabilities		<b>249,829</b>	238,808
NET CURRENT ASSETS		<b>1,075,095</b>	649,417
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>1,445,323</b>	943,004
<b>NON-CURRENT LIABILITIES</b>			
Bank loans		<b>454,221</b>	38,352
Deferred tax liabilities		<b>27,430</b>	26,631
Total non-current liabilities		<b>481,651</b>	64,983
Net assets		<b>963,672</b>	878,021
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	12	<b>88,073</b>	87,973
Reserves		<b>834,887</b>	735,861
Proposed final dividend		–	17,615
		<b>922,960</b>	841,449
Minority interests		<b>40,712</b>	36,572
Total equity		<b>963,672</b>	878,021

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority Interests	Total equity
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2006	87,973	247,733	2,704	47,757	27,310	410,357	17,615	841,449	36,572	878,021
Issue of shares upon exercise of share options (note 12)	100	540	-	-	-	-	-	640	-	640
Final 2006 dividend declared	-	-	-	-	-	-	(17,615)	(17,615)	-	(17,615)
Profit for the period	-	-	-	-	-	68,094	-	68,094	4,140	72,234
Exchange realignment	-	-	-	-	30,392	-	-	30,392	-	30,392
<b>At 31 December 2006</b>	<b>88,073</b>	<b>248,273</b>	<b>2,704</b>	<b>47,757</b>	<b>57,702</b>	<b>478,451</b>	<b>-</b>	<b>922,960</b>	<b>40,712</b>	<b>963,672</b>

From 1 July 2005 to 31 December 2005  
Attributable to equity holders of the Company

	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority Interests	Total equity
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2005	87,073	242,873	2,751	35,216	-	317,367	17,415	702,695	31,064	733,759
Issue of shares upon exercise of share options (note 12)	30	162	-	-	-	-	-	192	-	192
Final 2005 dividend declared	-	-	-	-	-	-	(17,415)	(17,415)	-	(17,415)
Profit for the period	-	-	-	-	-	61,472	-	61,472	1,901	63,373
<b>At 31 December 2005</b>	<b>87,103</b>	<b>243,035</b>	<b>2,751</b>	<b>35,216</b>	<b>-</b>	<b>378,839</b>	<b>-</b>	<b>746,944</b>	<b>32,965</b>	<b>779,909</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>91,237</b>	67,234
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(75,618)</b>	(18,897)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>388,145</b>	(13,888)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>403,764</b>	34,449
Cash and cash equivalents at beginning of period	<b>523,864</b>	474,000
Effect of foreign exchange rate changes, net	<b>18,543</b>	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>946,171</b>	508,449
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>946,171</b>	508,449

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

### 1. Accounting Policies

The condensed consolidated interim financial report for the six months ended 31 December 2006 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial report are the same as those used in the annual financial statements of the Group for the year ended 30 June 2006, except for the adoption of the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”, which also include Hong Kong Accounting Standards and interpretations) as disclosed in note 2.1 below.

#### 2.1 Impact of new and revised Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs, which are generally effective for annual periods beginning on or after 1 January 2006. The Group has adopted the following revised HKFRSs, which are applicable to the Group, in the interim financial report:

HKAS 21	Net Investment in Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

The adoption of these new and revised standards and interpretation has had no material effect on the accounting policies of the Group and the methods of computation in the Group’s interim financial report.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT (continued)

### 2.2 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in the interim financial report:

HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC) – Int 10 shall be applied for annual periods beginning on or after 1 November 2006.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has been concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs should have no significant impact on the Group's results of operations and financial position.

### 3. Revenue

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

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**4. Segment information**

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

	Manufacturing		Trading		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 December		31 December		31 December	
	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>267,915</u>	<u>223,531</u>	<u>98,146</u>	<u>78,904</u>	<u>366,061</u>	<u>302,435</u>
Segment results	<u>104,868</u>	<u>87,953</u>	<u>1,219</u>	<u>1,040</u>	<u>106,087</u>	<u>88,993</u>
Interest income and unallocated income					10,074	3,598
Unallocated expenses					(6,639)	(9,367)
Finance costs					(16,555)	(5,501)
Profit before tax					92,967	77,723
Tax					(20,733)	(14,350)
Profit for the period					<u>72,234</u>	<u>63,373</u>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**5. Finance costs**

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	<u><b>16,555</b></u>	<u>5,501</u>

**6. Profit before tax**

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

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>132,200</b>	100,779
Employee benefits expense (including directors' remuneration)	<b>14,255</b>	12,816
Depreciation	<b>4,852</b>	4,863
Amortisation of prepaid land lease payments	<b>233</b>	197
Loss on disposal of items of property, plant and equipment	<b>25</b>	26
Amortisation of intangible assets	<b>1,429</b>	1,124
Interest income	<u><b>(9,632)</b></u>	<u>(3,290)</u>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**7. Tax**

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Mainland China	<u><b>20,733</b></u>	<u>14,350</u>

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) (“GHMM”), a subsidiary of the Company, was classified as one of the approved “High and New Technology Enterprises” (高新技術企業) in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland Corporate Income Tax rate of 15% starting from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau in 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司), a subsidiary of the Company, was approved to enjoy a Mainland Corporate Income Tax rate of 15% from year 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entity established in western part of Mainland China.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

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

The calculation of basic earnings per share (“Share”) is based on the profit for the period attributable to equity holders of the Company of HK\$68,094,000 (2005: HK\$61,472,000) and the weighted average of 880,528,000 (2005: 870,765,000) ordinary Shares in issue during the Period.

The calculation of diluted earnings per Share is based on the adjusted profit for the Period attributable to equity holders of the Company of HK\$68,095,000 (2005: HK\$61,477,000) and on 880,941,000 (2005: 874,052,000) ordinary shares outstanding during the Period, adjusted for the effects of dilutive potential ordinary Shares outstanding during the Period.

A reconciliation of the earnings and the weighted average number of Shares used in calculating the basic and diluted earnings per Share is as follows:

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit attributable to equity holders of the Company used in basic earnings per Share calculation	<b>68,094</b>	61,472
Effects of dilutive convertible bonds	<b>1</b>	5
	<hr/>	<hr/>
Adjusted profit attributable to equity holders of the Company used in diluted earnings per Share calculation	<b>68,095</b>	61,477
	<hr/> <hr/>	<hr/> <hr/>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the Period used in basic earnings per Share calculation	<b>880,528</b>	870,765
Weighted average number of ordinary Shares: Assumed issued at no consideration on deemed exercise of all post-IPO share options outstanding during the Period	<b>397</b>	3,025
Assumed issued on deemed conversion of all convertible bonds outstanding during the Period	<b>16</b>	262
	<hr/>	<hr/>
Weighted average number of ordinary shares used in the diluted earnings per Share calculation	<b>880,941</b>	874,052
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**9. Available-for-sale equity investment**

During the Period, the Group entered into an agreement with an independent third party for the disposal of the Group's entire interest in the available-for-sale equity investment for cash consideration which approximates the carrying amount of the available-for-sale equity investment at 30 June 2006.

**10. Accounts and bills receivables**

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

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

	<b>31 December 2006 (Unaudited) HK\$'000</b>	30 June 2006 (Audited) HK\$'000
Within 90 days	<b>161,440</b>	173,425
91 – 180 days	<b>92,869</b>	63,055
181 – 365 days	<b>16,044</b>	28,610
Over 365 days	<b>297</b>	937
	<b><u>270,650</u></b>	<u>266,027</u>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**11. Accounts and bills payables**

The ageing analysis of the Group's accounts and bills payables as at the balance sheet date is as follows:

	<b>31 December 2006 (Unaudited) HK\$'000</b>	30 June 2006 (Audited) HK\$'000
Within 90 days	<b>61,962</b>	49,932
91 – 180 days	<b>7,736</b>	9,578
181 – 365 days	<b>2,206</b>	2,322
Over 365 days	<b>2,558</b>	2,636
	<u><b>74,462</b></u>	<u>64,468</u>

**12. Share capital**

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

Notes	Number of Authorized Shares ( <i>'000</i> )	Number of Issued Shares ( <i>'000</i> )	Nominal value of Shares issued HK\$'000
At 1 July 2005	2,000,000	870,734	87,073
Shares issued during the Period (a)	–	300	30
At 31 December 2005	<u>2,000,000</u>	<u>871,034</u>	<u>87,103</u>
At 1 July 2006	2,000,000	879,734	87,973
Shares issued during the Period (b)	–	1,000	100
At 31 December 2006	<u>2,000,000</u>	<u>880,734</u>	<u>88,073</u>

Notes:

- (a) During the six months ended 31 December 2005, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 300,000 Shares.
- (b) During the six months ended 31 December 2006, share options granted under the share options scheme of the Company were exercised which resulted in the issue of 1,000,000 Shares.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
(continued)

**13. Operating lease arrangements**

(a) *As lessor*

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for original terms of one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>31 December 2006 (Unaudited) HK\$'000</b>	30 June 2006 (Audited) HK\$'000
Within one year	1,715	1,369
In the second to fifth years, inclusive	741	1,215
	<u>2,456</u>	<u>2,584</u>

(b) *As lessee*

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

As at 31 December 2006, the Group had total future minimum lease payment under non-cancellable operating leases falling due as follows:

	<b>31 December 2006 (Unaudited) HK\$'000</b>	30 June 2006 (Audited) HK\$'000
Within one year	2,023	345
In the second to fifth years, inclusive	925	4
	<u>2,948</u>	<u>349</u>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**  
*(continued)*

**14. Commitments**

As at 31 December 2006, the Group had contracted commitments of HK\$10,580,000 (30 June 2006: HK\$13,202,000) in respect of purchases of technical knowhow.

In addition, as at 31 December 2006, the Group had contracted commitment of HK\$9,640,000 (30 June 2006: HK\$33,981,000) in respect of construction of property, plant and equipment.

**15. Contingent liabilities**

As at 31 December 2006, the Group did not have any material contingent liabilities (30 June 2006: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

### **MARKET REVIEW**

During the Period, sales of medicines in the PRC recorded substantial growth and the market outlook was favourable. According to a report published in《中國醫藥報》(China Pharmaceutical Journal), China’s pharmaceutical industry had recorded revenue of RMB434.7 billion for the period from January to October 2006 and the figure was expected to reach RMB520 billion by the end of 2006, compared with RMB430 billion for the full year of 2005.

During the Period, the pharmaceutical industry undergone reform in parallel with continued development. As the State advanced systemic reform in the medical and health sectors, with reasonable allocation of medical resources and strengthened regulation of the production and distribution of medicines, as well as the introduction of a series of price reduction measures, the pharmaceutical industry, particularly western medicines, had been under great pressure. However, over-the-counter (“**OTC**”) Chinese medicines and biological medicines with recognized intellectual property rights are being presented with encouraging development opportunities. The management is of the view that the development of the domestic pharmaceutical sector will be beneficial to the building of an orderly medicines distribution system, the emergence of pharmaceutical conglomerates, further market concentration and regulation of the market. As the market becomes more concentrated, the management believes that the advantages of economy of scale enjoyed by pharmaceutical enterprises will become more prominent. Market players, like Hua Han which possesses a clearly-defined strategy and a specific business goal, are set to enjoy a greater competitive edge.

### **BUSINESS REVIEW**

The Group reported continuous steady growth across its core business segments during the Period, with prescription drugs, OTC drugs and feminine medicinal healthcare products all recording steady growth. It is encouraging to see the Group has successfully achieved a balanced development in terms of business growth and risk exposure.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL PERFORMANCE

During the Period, the Group's turnover was approximately HK\$366.1 million, of which approximately HK\$267.9 million was derived from sales of the Group's own products, representing an increase of approximately 19.9% as compared with approximately HK\$223.5 million of the corresponding period in last year. Prescription drugs contributed approximately HK\$151.1 million in sales during the Period, representing approximately 56.4% of the total sales of the Group's own products. OTC drugs recorded approximately HK\$56.5 million in sales during the Period, accounting for approximately 21.1% of the total turnover of the Group's own products and an approximately 29.7% increase over the corresponding period in last year. Feminine medicinal healthcare products recorded approximately HK\$60.3 million in sales during the Period, representing approximately 22.5% of the total turnover of the Group's own products and an approximately 82.4% increase over the corresponding period in last year. In addition, approximately HK\$98.2 million of the Group's turnover was attributable to trading business.

#### Market segments

The Group has formulated development objectives and competition strategies specifically for prescription drugs, OTC drugs and feminine medicinal healthcare products according to their own characteristics. During the Period, such development strategies have been implemented consistently.

#### Prescription drugs

The Group has continued its efforts in the improvement of its sales network and penetration of distribution channels, strengthened the build-up of a strong professional sales team by recruiting high-caliber professionals, and endeavoured to devote more sales and marketing efforts to its key products through a number of means including academic and public welfare promotion. Concurrently, sales of **Jinbaka (金巴卡) – Paclitaxel Injection (紫杉醇注射液)** and **Kangai Fuzheng Capsules (康艾扶正膠囊)**, both of which only began sales in December 2005, had performed well during the Period and recorded sales revenue of approximately HK\$17.5 million. In addition, the Group's major prescription drug product – the biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)**, which is a State "category one new medicine", received overwhelming response from buyers during the 56th Annual National Pharmacy Trade Conference (第56屆全國藥品交易會) held in Shenzhen in December 2006. Many experts have expressed great interest and given much attention to this product.

#### OTC drugs

**Fuke Zaizaowan (婦科再造丸)** remains the Group's core branded product under this category. The main promotional strategy of this product line lies in product branding and enhancement of the Group's corporate image through brand promotion and points of sale promotion. Business development is being realised progressively and gradually. The Group continued to consolidate and enhance the integration of its marketing plans in Guizhou, Yunnan, Sichuan, Chongqing, Shaanxi and Gansu provinces, and has been actively pursuing expansion and sales growth in more than 10 other regions including Guangdong, Hubei and Beijing. The Group has also made additional efforts to penetrate into the rural pharmaceutical market with an aim to capitalize on the rapid development of this market. The Group has exerted greater marketing efforts to achieve better sales performance in this market.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL PERFORMANCE (continued)

#### Market segments (continued)

##### *Feminine medicinal healthcare products*

The Group has continuously strengthened the implementation of the brand strategy and differentiation strategy for the “**Magic 美即**” series products and has explored further into the distribution channels. Through closer strategic co-operation with Watsons, Carrefour, Wal-Mart, 1000colour Department Store, PARKnSHOP, Jusco and other famous nation-wide retail channels, the Group’s sales channels cover most of the major cities throughout the PRC. Points of sale for this product series had grown significantly from approximately 350 in last year to around 800 during the Period. The Group has also improved the depth and breadth of the local sale channels in key regional markets such as Guangzhou, Shenzhen, Beijing and Shanghai to further penetrate into these markets. During the Period, in view of the satisfactory market response from consumers to the marketing campaign of this product line, and in order to further strengthen the brand image and technical quality of the “**Magic 美即**” product line, the Group has established a wholly-owned subsidiary in Korea in December 2006. The subsidiary is responsible for trademark and patent registrations of the “**Magic 美即**” brand and products in Korea, and also for formation of strategic alliances with renowned universities and research institutes. Such alliances will enable in-depth research and development of products and quality enhancement through application of foreign advanced technologies. At present, product variety under this product line has increased to approximately 100 items under three series, of which approximately 50 products have been launched in the market, covering all three major categories of feminine healthcare, namely facial treatment, eye treatment and body treatment. It has firmly established the foundation for the Group’s expansion into the international market. In December 2006, “**Magic 美即**” products were launched in the Hong Kong market with a coverage of more than 170 points of sale under the Watsons network. The sale prospect has been promising.

#### AWARDS

During the Period, Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) has received from the Administration for Industry and Commerce of Guizhou the honourable title of “Award of ‘Unit with Commitment to Contracts and Credibility’ for 7 Consecutive Years from 1999 to 2005” (一九九九年至二零零五年連續7年「守合同·重信用」單位) .

**Yeosure Natural Medicine Lotion (日舒安洗液)** was granted the title of “Number 1 Brand in China Gynecological Medicines (中國婦科藥品第一品牌)” in the 2006 Top Brands Assessment in National Pharmaceutical Industry (二零零六年全國醫藥行業第一品牌評價工作) organized by the PRC News Association (中國新聞社) .

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### AWARDS (continued)

**Fuke Zaizaowan (婦科再造丸)** was recognized as “China’s renowned brand name (中國著名品牌)” by the Social Survey Institute of China (中國社會調查所), a renowned survey institute in China, in the “Product survey on market satisfaction and reputation (產品社會滿意度·信譽度公益性調查)” on gynecological medicinal products in 2006. It was also awarded by the institute a medal and an honourable certificate in December 2006.

**Fuke Zaizaowan (婦科再造丸)** was also granted the title of “Number 1 Brand in China Gynecological Medicines (中國婦科藥品第一品牌)” in the 2006 Top Brands Assessment in National Pharmaceutical Industry (二零零六年全國醫藥行業第一品牌評價工作) organized by the PRC News Association (中國新聞社).

In 2006, **Fuke Zaizao Capsules (婦科再造膠囊)** and **Duzhong Jiangya Tablets (杜仲降壓片)** were both granted second-class honour as an outstanding new product of Guiyang City.

In 2006, **Duzhong Butiansu Tablets (杜仲補天素片)** and **Duzhong Zhuanggu Pills (杜仲壯骨丸)** were both granted third-class honour as an outstanding new product of Guiyang City.

### RESEARCH AND DEVELOPMENT

During the Period, the Group’s gynecological recuperation product **Fuke Zaizao Capsules (婦科再造膠囊)** was well received by the market and popular among users.

During the Period, the Group completed phase II of the clinical trials of **Fu Shu Le Tablets (婦舒樂片)**, a new Chinese medicine for curing gynecological atrophic vaginitis which is common in women at menopause. An application for the new medicine certification with the State Food and Drug Administration of the PRC (中國國家食品藥品監督管理局) (“**SFDA**”) has been submitted.

Clinical trials of **Secmidazole Tablets and Capsules (塞克硝唑片及膠囊)**, a new product for curing gynecological trichomoniasis and anerobe, had been completed. Relevant reports on the clinical trials and other related information had been duly prepared. Application for production of this new medicine with SFDA will be submitted in the near future and the approval for sales will be expected to be obtained in mid 2007.

Other products in the pipeline mainly concern gynecological medicines and prescription drugs.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### RESEARCH AND DEVELOPMENT *(continued)*

In order to enhance the quality and competitiveness of “**Magic 美即**” series products, the Group, through the setting up of a wholly-owned subsidiary in Korea, would form strategic alliances with certain renowned Korean universities and R&D corporations, which would enable the Group to keep abreast of market information, integrate the results of modern scientific research technologies and continue the R&D of various reserve products with regard to product composition, forms, features and production techniques. About 50 “**Magic 美即**” series products have been launched in the market.

### PRODUCTION FACILITIES

The high-tech bio-pharmaceutical production plant for the Group’s major product – the State “category one new medicine” biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)** is now at a critical stage of construction. Meanwhile, the Group is actively preparing for the Good Manufacturing Practice (“**GMP**”) application to ensure that the new drug will be granted the GMP production certificate from SFDA as early as possible.

Given the Group’s confidence in the development trend of the Chinese medicine market, the Group leverages on the industrialization work of the State “category one new medicine” biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)** for the establishment of an advanced R&D centre. Dr. Liu Pingsheng (劉平生博士), an assistant professor and postgraduate tutor at the University of Texas Southwestern Medical Center (美國德州大學西南醫學中心), will be appointed to oversee the operation and Professor Gu Fangzhou (顧方舟教授), the founder of Chinese Children Immunology and the former principal of Peking Union Medical College (中國協和醫科大學), will be appointed as the chief technical consultant of the Group.

In order to cater for the rapid growth of the market demand of “**Magic 美即**” series of products, the Group is seeking a suitable location in the Guangdong Province to build a new plant.

### PROSPECTS

During the second half of 2006, the pharmaceutical industry in China has been growing steadily. This has laid a cornerstone for the sustainable and rapid development of the pharmaceutical sector. The Directors are of the view that in 2007, the pharmaceutical sector will undergo a substantial reform which would enhance the value of the sector as a whole. It is expected that the currently excessive, tiny, scattered and disorderly structure of the Chinese medicine sector will be replaced by a more standardized and sophisticated system, and this sector is thus expected to gradually develop into a sector with more promising development prospects and better appeal.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS (continued)

In 2007, following the deepening of the reform and development of the pharmaceutical sector, industry consolidation as well as merger and acquisition activities will speed up, through which companies of higher quality would be able to grasp a greater market share and thus enhance their ability to resist market risks. They will have certain level of influence in the policy formulation on price reduction of drugs, pharmaceutical reform and the setting of industry standards, which will improve the operating conditions of the pharmaceutical business.

In the second half of the current financial year, the Group will continue to optimize operational efficiency, fortify internal control systems, strengthen cost control and risk management through continuous internal consolidation, efficient resources reallocation and construction of a fully integrated operation platform. In the meantime, the Group is continuing to identify opportunities to acquire pharmaceutical enterprises which would contribute to the product varieties, brand building, distribution network and profits of the Group to broaden the strength and scale of the Group.

The Group will use its best endeavours to promptly launch and market the State “category one new medicine” biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)**, which has been granted a national patent right and an exclusive intellectual property right. Meanwhile, the Group has started the research and development in deriving other oral solutions from residues of raw materials in the category one new medicine, such as **Taihuasu (胎華素)**, **Taihuanghuosu (胎黃活素)** and **Taijihuosu (胎蒴活素)**. These oral solutions are highly effective for anti-aging and beauty purposes, and they have a huge potential in the market and a promising profitability prospect. Following the launch of the **Human Nerve Growing Factor Injection (人神經生長因子注射液)** to the market, the Group will reinforce and raise its brand and competitive status in the prescription drugs market, thus furthering the profitability of its prescription drugs.

The “**Magic 美即**” series of medicinal healthcare products, which possess significant growth potential for the Group, have always been regarded as the main focus of the Group’s future development since they were launched in the market. The Group will further adapt to the trend of the consumer market, grasp the changes in market demand, strengthen and develop the strategic cooperation relationships with nationwide chain stores and local department stores and supermarkets, broaden the coverage in regional markets and reinforce various promotion efforts in order to build up a better and more distinctive “**Magic 美即**” brand image and enhance its competitive advantage. At the same time, by enlarging sales in the Hong Kong market, the Group can establish a foundation for introducing the “**Magic 美即**” series products into the Southeast Asia market.

Following the rapid expansion of the rural pharmaceutical market in China and the government’s growing concern over urban communal healthcare, the Group will focus on the formulation of rural and communal pharmaceutical promotional and marketing projects to fully capitalize on the wide product coverage and reasonable pricing characteristics of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Consequently, the Group may promptly tap into the rural and communal pharmaceutical market, get a rapid rise in revenue from the rural and communal market and enlarge its scale of sales, thus generating a greater profit return.

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

### **PROSPECTS** *(continued)*

The Group remains cautious and optimistic about the future. The Group will continue to do its best to reinforce its foundation, actively raise the standard of R&D and quality control, speed up its business expansion and enhance marketing and channel penetration strategies with a view to consolidating and reinforcing its prominent position in the market.

### **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 2006, the Group had unpledged cash and bank balances of approximately HK\$946.2 million (30 June 2006: approximately HK\$523.9 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of Company was approximately 59.4% (30 June 2006: approximately 18.8%). Net current asset value was approximately HK\$1,075.1 million (30 June 2006: approximately HK\$649.4 million) and the current ratio calculated as a ratio of current assets to current liabilities was maintained at the healthy level of approximately 5.3 (30 June 2006: approximately 3.7).

### **COMMITMENTS**

As at 31 December 2006, the Group had contracted commitments of HK\$10,580,000 (30 June 2006: HK\$13,202,000) and HK\$9,640,000 (30 June 2006: HK\$33,981,000) in respect of purchases of technical knowhow and construction of property, plant and equipment.

### **CONTINGENT LIABILITIES**

As at 31 December 2006, the Group did not have any material contingent liabilities (30 June 2006: Nil).

### **BANK BORROWINGS**

As at 31 December 2006, the Group had outstanding bank loans of approximately HK\$548.0 million from banks in the PRC and Hong Kong (30 June 2006: approximately HK\$157.6 million), approximately 17.1% (30 June 2006: approximately 75.7%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 31 December 2006, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain land and buildings of the Group; (iii) corporate guarantees executed by a subsidiary of the Company; (iv) pledge of the equity interests in certain subsidiaries held by 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. Renminbi was relatively stable 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 facilities were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollars.

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

As at 31 December 2006, the Group had a total of 1,289 employees (2005: 1,158), of whom 1,284 were based in the PRC, with the rest working in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Period, staff costs (including Directors' remunerations) amounted to approximately HK\$14,255,000 (2005: approximately HK\$12,816,000). The Group has participated 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 Directors has resolved not to declare any interim dividend for the Period (2005: Nil).

## ADDITIONAL INFORMATION

### SHARE OPTION SCHEME

The Company operates a share option scheme (“**Scheme**”) for the purpose of providing incentives and/or rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 25 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

Movement of options to subscribe for Shares granted under the Scheme during the Period was as follows:

Class of grantee	Date of grant	Outstanding as at 1 July 2006	Number of underlying Shares			Outstanding as at 31 December 2006	Exercise price per share (HK\$)	Exercise period
			Granted during the Period	Exercised during the Period	Lapsed during the Period			
Directors (Note 1)	1/09/2004	1,200,000	-	-	1,200,000	-	0.64	1/09/2004 to 31/08/2006
Other employees (Note 2)	1/09/2004	2,400,000	-	-	2,400,000	-	0.64	1/09/2004 to 31/08/2006
Others	1/09/2004	1,000,000	-	1,000,000 (Note 3)	-	-	0.64	1/09/2004 to 31/08/2006
		<u>4,600,000</u>	<u>-</u>	<u>1,000,000</u>	<u>3,600,000</u>	<u>-</u>		

#### Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed “Directors’ rights to acquire shares or debentures” in this report below.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
3. The weighted average closing price of the Shares of the Company on 7 August 2006, being the trading day immediately preceding the date of exercise of the options, was HK\$1.43 per Share.

## ADDITIONAL INFORMATION *(continued)*

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

As at 31 December 2006, 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) (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, 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 Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”), to be notified to the Company and the Stock Exchange were as follows:

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

#### *Notes:*

1. The letter “L” represents the Director’s interests in the Shares and underlying Shares or, as the case may be, the equity interest of the Company or its associated corporations.
2. These 308,758,783 Shares were held by Bull’s-Eye Limited (“**BEL**”), more than one-third of the issued share capital of which is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.
3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited (“**GHKA**”), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Deng Jie is 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 2006, none of the Directors and chief executive of the Company had any interest and short positions in the shares, 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 SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

No options was granted to the Directors under the Scheme and outstanding as at 31 December 2006. During the Period, options granted to Zhang Peter Y. and Xu Peng carrying rights to subscribe for a total of 1,200,000 Shares lapsed.

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

As at 31 December 2006, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
BEL <i>(Note 2)</i>	308,758,783 (L)	Beneficial owner	35.06%
Liu Yu <i>(Note 3)</i>	308,758,783 (L)	Interest of spouse	35.06%
Haw Par Corporation Limited <i>(Note 4)</i>	183,532,400 (L)	Interest of controlled corporation	20.84%
Haw Par Pharmaceutical Holdings Pte. Ltd. <i>(Note 4)</i>	183,532,400 (L)	Beneficial owner	20.84%
Atlantis Investment Management Ltd.	46,360,000 (L)	Investment manager	5.26%
Chartered Asset Management Pte. Ltd.	70,692,000 (L)	Investment manager	8.03%

## ADDITIONAL INFORMATION *(continued)*

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

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
Jayhawk China Fund (Cayman) Ltd. <i>(Note 5)</i>	70,752,000 (L)	Investment manager	8.03%
Kent C. McCarthy <i>(Note 5)</i>	70,752,000 (L)	Interest of controlled corporation	8.03%

#### *Notes:*

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

Save as disclosed above, as at 31 December 2006, 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 in the Company as recorded in the register required to be kept under section 336 of the SFO.

## **ADDITIONAL INFORMATION** *(continued)*

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

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

### **DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES**

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company’s loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company:

1. On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong (“**Loan Agreement**”), which contained specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

The Loan Agreement was for a term loan facility of up to HK\$100,000,000, the final maturity date of which should be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

The Loan Agreement provided that so long as there remained any money outstanding under the Loan Agreement: (1) Mr. Zhang should continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu should continue to be a director of the Company and (save and except BEL) the person with the second largest attributable shareholding in the Company; and (3) Mr. Zhang and Mr. Xu should collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and should collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

## ADDITIONAL INFORMATION *(continued)*

### DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

*(continued)*

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement. The loan facility, together with all interests accrued on the loan facility, under the Loan Agreement was repaid in full by the Company on 17 July 2006.

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

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

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

On behalf of the Board  
**Zhang Peter Y.**  
*Chairman*

Hong Kong, 16 March 2007