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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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

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 2011 (“**Period**”) together with the comparative figures for the corresponding period in 2010 and the relevant explanatory notes as set out below. The condensed consolidated interim financial statements for the Period are unaudited, but have been reviewed by the audit committee (“**Audit Committee**”) of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		31 December	
		2011	2010
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
CONTINUING OPERATIONS			
Turnover	3	895,281	549,942
Cost of sales		(247,497)	(155,126)
Gross profit		647,784	394,816
Other income and gains		8,839	2,665
Selling and distribution expenses		(356,566)	(202,243)
Administrative expenses		(69,027)	(35,154)
Fair value gain on derivative financial instruments		–	5,534
Share of profit of an associated company		20,643	6,935
Finance costs	5	(1,155)	(1,163)
Profit before taxation		250,518	171,390
Taxation	6	(50,662)	(36,308)
Profit for the period from continuing operations		199,856	135,082
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	7	–	180,072
Profit for the period	8	199,856	315,154
Dividend	9	–	–

		For the six months ended	
		31 December	
		2011	2010
		(Unaudited)	(Unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company			
	From continuing operations	170,519	123,353
	From discontinued operations	–	159,014
		<u>170,519</u>	<u>282,367</u>
Non-controlling interests			
	From continuing operations	29,337	11,729
	From discontinued operations	–	21,058
		<u>29,337</u>	<u>32,787</u>
		<u>199,856</u>	<u>315,154</u>
EARNINGS PER SHARE			
	From continuing and discontinued operations		
	Basic	<u>HK8.5 cents</u>	<u>HK17.6 cents</u>
	Diluted	<u>HK8.2 cents</u>	<u>HK16.9 cents</u>
	From continuing operations		
	Basic	<u>HK8.5 cents</u>	<u>HK7.7 cents</u>
	Diluted	<u>HK8.2 cents</u>	<u>HK7.4 cents</u>
	From discontinued operations		
	Basic	<u>Nil</u>	<u>HK9.9 cents</u>
	Diluted	<u>Nil</u>	<u>HK9.5 cents</u>

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<u>199,856</u>	<u>315,154</u>
OTHER COMPREHENSIVE INCOME (EXPENSES)		
Exchange differences arising from translation of foreign operations	66,046	65,447
Release of other reserve upon deemed disposal of a subsidiary	–	26,100
Share of other comprehensive income of an associate	<u>12,522</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>278,424</u>	<u>406,701</u>
TOTAL COMPREHENSIVE INCOME		
ATTRIBUTABLE TO:		
Owners of the Company	246,972	368,419
Non-controlling interests	<u>31,452</u>	<u>38,282</u>
	<u>278,424</u>	<u>406,701</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2011 (Unaudited) <i>HK\$'000</i>	30 June 2011 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		311,423	300,010
Prepaid lease payments		30,663	29,992
Intangible assets		209,454	225,008
Deferred expenditure		60,959	59,426
Goodwill		110,273	110,273
Interest in associates		336,530	314,508
Deposits and prepayments	11	630,309	197,205
Deferred tax assets		235	235
		1,689,846	1,236,657
CURRENT ASSETS			
Inventories		48,286	28,169
Trade and bills receivables	12	700,990	567,730
Other receivables, deposits and prepayments		121,703	363,629
Tax recoverable		–	6,326
Bank balances and cash		1,444,806	1,456,597
		2,315,785	2,422,451
CURRENT LIABILITIES			
Trade payables	13	97,888	32,249
Other payables and accrued expenses		51,333	129,096
Obligation under a finance lease		208	201
Bank borrowings		33,181	32,347
Tax payable		81,683	49,314
Dividend payable		68,293	–
		332,586	243,207
NET CURRENT ASSETS		1,983,199	2,179,244
TOTAL ASSETS LESS CURRENT LIABILITIES		3,673,045	3,415,901

	31 December	30 June
	2011	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
CAPITAL AND RESERVES		
Share capital	200,861	197,433
Reserves	3,211,081	2,985,185
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EQUITY ATTRIBUTABLE		
TO OWNERS OF THE COMPANY	3,411,942	3,182,618
NON-CONTROLLING INTERESTS	174,914	143,462
	<hr/>	<hr/>
TOTAL EQUITY	3,586,856	3,326,080
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Obligation under finance leases	567	674
Deferred tax liabilities	63,295	62,693
Deferred income	22,327	26,454
	<hr/>	<hr/>
	86,189	89,821
	<hr/>	<hr/>
	3,673,045	3,415,901
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2011 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 30 June 2011, 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 2011 annual financial statements of the Group for the year ended 30 June 2011.

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.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 24 (Revised)	Related Party Disclosures
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

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

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 July 2012 or later periods. The Group has not early adopted these standards, amendments and interpretations during the Period. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a material impact on the Group’s results and financial positions for the Period.

3. Turnover

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

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Manufacturing, sale and trading of pharmaceutical products	<u>895,281</u>	<u>549,942</u>

4. Segment information

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

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

During the year ended 30 June 2010, the operations of facial mask and skincare products were classified as discontinued operations. Details of the discontinued operations are set out in Note 7.

Segment revenues, results, assets and liabilities

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

Geographical information

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

Information about major customers

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

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A (<i>Note</i>)	<u>156,872</u>	<u>N/A</u>

Note: The corresponding revenue did not contribute over 10% of the total sales of the Group for the period ended 31 December 2010.

5. Finance costs

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:		
Interest expenses on:		
– bank borrowings repayable		
within five years	1,128	1,146
– finance lease charges	<u>27</u>	<u>17</u>
Total borrowing costs charged to the condensed consolidated income statement	<u>1,155</u>	<u>1,163</u>

6. Taxation

For the six months ended	
31 December	
2011	2010
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

Continuing operations:

PRC Enterprise Income Tax (“EIT”)

– Current period

<u>50,662</u>	<u>36,308</u>
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Hong Kong Profits Tax has not been provided for in the condensed consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for both periods.

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

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

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

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

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

7. Discontinued operations

During the period ended 31 December 2010, the Group completed the spin-off of its operations in facial mask and skincare products through separate listing of its non-wholly owned subsidiary Magic Holdings Group Limited and its subsidiaries (collectively referred to as the “Magic Group”) on the Stock Exchange on 24 September 2010. Upon the listing of the Magic Group, the Group’s interests in the Magic Holdings International Limited (the holding company and the listing vehicles of the Magic Group) was diluted from 36.4% to 25.94% and pursuant to the cancellation of the voting-in-concert undertakings given by Mr. Tang Siu Kun Stephen in favour of the Group on 10 October 2007 and Mr. She Yu Yuan in favour of Queenherb Enterprises Limited on 5 November 2009, the investments in Magic Group would be recognised as interest in associates.

The profit from the discontinued operation is analysed as follows:

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit of facial mask and skincare products operations for the period	–	33,110
Gain on deemed disposal of a subsidiary	–	146,962
	<u>–</u>	<u>180,072</u>
	<u>–</u>	<u>180,072</u>

The results of the operations in facial mask and skincare products for the period ended 31 December 2010 which have been included in the condensed consolidated income statement were as follows:

	For the period
	from 1 July
	2010 to
	23 September
	2010
	(Unaudited)
	HK\$'000
Turnover	187,125
Cost of sales	<u>(39,584)</u>
Gross profit	147,541
Other income and gains	21
Selling and distribution expenses	(102,886)
Administrative expenses	(8,080)
Fair value gain on derivative financial instruments	5,100
Finance costs	<u>–</u>
Profit before taxation	41,696
Taxation	<u>(8,586)</u>
Profit for the period from discontinued operations	<u>33,110</u>
Profit for the period attributable to:	
Owners of Magic Holdings	33,346
Non-controlling interests	<u>(236)</u>
	<u>33,110</u>

Profit for the period from discontinued operations includes the following:

	For the period from 1 July 2010 to 23 September 2010 (Unaudited) HK\$'000
Amortisation of intangible assets	957
Cost of inventories sold	39,584
Staff costs (including directors' emoluments)	4,383
Depreciation of property, plant and equipment	43
Interest income	(12)
Fair value gain on derivative financial instruments	<u>(5,100)</u>

8. Profit for the period

	For the six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period arrived at after charging and (crediting):		
Continuing operations:		
Amortisation of intangible assets	20,054	19,882
Amortisation of prepaid land lease payments	735	675
Cost of inventories sold	247,497	155,126
Staff costs (including directors' emoluments)	18,490	20,708
Share-based payments	22,650	–
Depreciation of property, plant and equipment	7,761	6,243
Interest income	(8,839)	(2,664)

9. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2011 (corresponding period in 2010: Nil).

10. Earnings per share

From continuing and discontinued operations

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	
	2011	2010
	(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	170,519	282,367
	2,005,256	1,602,746
	80,544	71,096
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,085,800	1,673,842

From continuing operations

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

Earnings figures are calculated as follows:

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to the owners of the Company	170,519	282,367
<i>Less:</i> Profit for the period attributable to the owners of the Company from discontinued operations	<u>–</u>	<u>(159,014)</u>
Earnings for the purposes of basic and diluted earnings per share from continuing operations	<u>170,519</u>	<u>123,353</u>

From discontinued operations

For the period ended 31 December 2010, basic earnings per share for the discontinued operations is HK9.9 cents per share and diluted earnings per share for the discontinued operations is HK9.5 cents per share, based on the profit for the period ended 31 December 2010 attributable to the owners of the Company from discontinued operations of HK\$159,014,000 and the denominators detailed above for both basic and diluted earnings per share.

11. Deposits and prepayments

	31 December	30 June
	2011	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Deposits paid in respect of:		
Deposit paid for leasehold improvement	11,091	10,821
Deposit paid for acquisition of plant and equipment (<i>Note 1</i>)	191,193	186,384
Deposit paid for prepaid lease payments (<i>Note 2</i>)	246,700	–
Deposit paid for formation of a jointly controlled entity (<i>Note 3</i>)	<u>181,325</u>	<u>–</u>
	<u>630,309</u>	<u>197,205</u>

Notes:

- (1) On 9 May 2011, the Group entered into a purchase agreement with Guizhou Shunzhi Trade Co., Ltd. (“**Guizhou Shunzhi**”), pursuant to the purchase agreement, Guizhou Shunzhi will be responsible for the sourcing of plant and equipment for production line of Human Placental Serum Albumin and upfront deposit of RMB155 million (equivalent to approximately HK\$191 million) had been paid upon entering into the purchase agreement. Those plant and equipment were not yet received at 31 December 2011 and the amount is classified as deposit paid for acquisition of plant and equipment and included in the non-current assets.
- (2) The Group paid for a deposit of land lease payments. The transfer of the title of the land is under registration process and the amount is classified as deposit paid for prepaid lease payments and included in the non-current assets.
- (3) As the jointly controlled entity is in the process of capital inspection, the amount paid by the Group is classified as deposit paid for formation of the jointly controlled entity and included in the non-current assets.

12. Trade and bills receivables

The Group’s trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of up to 180 days and extended to one year for certain customers with long-established relationship and good past repayment history. The Group does not hold any collateral over these balances.

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

	31 December 2011 (Unaudited) HK\$’000	30 June 2011 (Audited) HK\$’000
Within 90 days	458,716	247,032
91 – 180 days	154,688	236,846
181 – 365 days	85,674	83,472
Over 365 days	1,912	380
	700,990	567,730

13 Trade payables

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

	31 December	30 June
	2011	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 90 days	87,787	24,997
91 – 180 days	4,384	2,043
181 – 365 days	1,860	2,180
Over 365 days	3,857	3,029
	<hr/> 97,888 <hr/>	<hr/> 32,249 <hr/>

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

14. Events after the reporting period

On 19 January 2012, the Group sold a total of 150,284,000 shares of Magic Holdings International Limited (“**Magic Holdings**”), a listed associate of the Company, at cash consideration of approximately HK\$450,852,000. Immediately after completion of the disposal of 150,284,000 shares of Magic Holdings, the Group will be interested in approximately 9.998% (less than 10%) of the total issued share capital of Magic Holdings and Magic Holdings will cease to be an associate of the Company.

15. Comparative figures

Certain comparative figures have been reclassified to conform to current Period’s presentation. The Directors consider that reclassification of gain on deemed disposal of a subsidiary from continuing operations to discontinued operations and the corresponding adjustment on earnings per share from continuing and discontinued operations in the condensed consolidated income statement for the period ended 31 December 2010 is more meaningful.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MARKET REVIEW

During the Period, the PRC pharmaceutical industry continued to maintain a high growth. According to the statistics from National Bureau of Statistics of China, sales revenue of PRC pharmaceutical industry in 2011 had achieved RMB 1,452.2 billion, representing a year-on-year increase of 29.37%, reaching its relatively historical high in growth; with a recorded profit of RMB 149.4 billion, representing a year-on-year increase of 23.50%. The drivers of the continuous expansion of the PRC pharmaceutical market are: firstly, the pace of population aging is accelerating; secondly, the coverage of national medical insurance system is getting more and more comprehensive, with increasing input of resources into public health medical sector by the government; thirdly, the continuous increase in healthcare demand by urban residents with increasing purchasing power. Since total expenditure of both medical and healthcare represent less than 5% of Gross Domestic Products of China, there is still a huge gap when compared with developed countries. Therefore, the PRC pharmaceutical industry development continues to maintain its rapid growth. According to the forecast of some authoritative experts in 2012, the optimising development environment and conditions of the PRC pharmaceutical industry will remain unchanged as in the past and it is expected that its annual growth rate will still attain over 20%.

During the Period, the PRC pharmaceutical industry emerged with some new features: product and technology innovations became the focus of investment and development direction of more and more pharmaceutical enterprises; escalating general public concern towards pharmaceutical product quality and medication safety, and the supervision efforts and control standards of drug regulatory departments in this respect are increasing very rapidly; the scale of state-owned enterprises is expanding quickly; the entry of foreign enterprises into the industry had led to the intensifying mergers and acquisitions and reorganisation; certain policies that have long been restricting the development of pharmaceutical enterprises were somewhat loosening. As the competition of generic drugs market is intense with decreasing gross profit, it causes more and more PRC pharmaceutical enterprises to intensify their efforts in new drugs and new technology, expecting to enhance their future competitive ability and thus excel others in the market. In this regard, certain pharmaceutical enterprises, such as Jiangsu Hengrui (江蘇恆瑞), Jiangsu Simcere (江蘇先聲), Zhejiang Hisun (浙江海正), Tianjin Tasly (天津天士力), Sino Biopharmaceutical (中國生物製藥) and Shandong Qilu Pharmaceutical (山東齊魯), have formed a relatively sophisticated research and development pattern, and such pharmaceutical enterprises have several to dozens of new drugs in which research and development are in progress and under application for approval. After the new version of National Good Manufacturing Practice (GMP) Certification Standards that cover the basic GMP requirements of the standards as in Europe, U.S.A. and that of the World Health Organization issued in 2011, higher requirements in drug production and quality control were demanded. This will cause a certain impact on small and medium-size pharmaceutical enterprises in the short run. However, in the long run, it will benefit in enhancing the clustering of pharmaceutical industry, promote the upgrading of pharmaceutical industry and modernisation and internationalisation of medicine production. Under the conditions of government support and advantages in resources, through several rounds of mergers and acquisitions and reorganisations, National Medicine Group (國藥集團), China Resources Group (華潤集團) and Shanghai Pharmaceutical Group (上海醫藥集團) are becoming the “conglomerate” of the PRC pharmaceutical industry with substantial increase in market strength and influence. Following the contribution of US\$70.0 million capital by GlaxoSmithKline to acquire Nanjing Meirui Pharmaceuticals Co., Ltd. (南京美瑞製藥有限公司), Cardinal Health contributed a capital of US\$470.0 million to acquire China Zuellig Pharmaceutical (中國永裕醫藥), SciClone Pharmaceuticals contributed a capital of US\$ 104.8 million to acquire NovaMed, a company engaging in medicine distribution and marketing in the PRC, Pfizer Inc. and Zhejiang Hisun Pharmaceutical (浙江海正藥業公司) jointly invested a total capital of US\$295.0 million to establish a joint venture, Boots (the world’s largest retail chain company in medicine circulation and medicine health products) invested in Nanjin Pharmaceutical Group (南京醫藥集團), Merck & Co., Inc and Jiangsu Simcere Pharmaceutical Group (江蘇先聲藥業集團) set up a joint venture in the PRC, these have clearly demonstrated that foreign investment enterprises are trying to capture larger market share in the PRC pharmaceutical market.

During the Period, “**the 12th Five-Year Plan in China Pharmaceutical Industry**” had already been launched, which mainly targets towards the facilitation of transformation, upgrading and rapid development of the pharmaceutical industry, accelerates the pace of drug innovation, especially bio-technological medicine of which neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products are being listed in the first batch of key development areas. At the same time, it improves the quality and safety standards of pharmaceutical products and promotes enterprises to improve the quality management system. For other aspects, the “**new medical reform**” in China continued to be implemented comprehensively, the National Essential Drugs system was spreading widely, and public hospitals were reforming orderly. Without any doubt, with the arrival of the great era of PRC pharmaceutical market, those enterprises with strong development prospects, tier-strategies in keeping up with market development, unique product series and advanced technologies, strong and well-established nationwide end-user sales marketing network and excellent implementation capacity will eventually excel others in the market and become a conglomerate pharmaceutical enterprise based in PRC, and then those enterprises will grow stronger and stronger to face towards international competition.

BUSINESS REVIEW

During the Period, against the backdrop of the gradual implementation of domestic “**new medical reform**” policies and intensification of pharmaceutical market competition, the Group had adopted proactive measures to sustain a continuous and rapid growth for the Group’s businesses. During the Period, the Group continued to focus on the critical areas of its designated development strategy, explored and established a new sales model. This new sales model is to promote the exclusive national medical insurance catalogue (“**National Medical Insurance Catalogue**”) products to drive the sales of prescription drugs and to promote the exclusively branded product categories to drive the sales of Over The Counters (“OTC”) drugs. Vigorously developing bio-pharmaceutical medicines and technologies while keeping the steady growth of traditional Chinese medicines mainly specialising in gynecological pharmaceutical products have formed a new structure of the Group’s future development. Meanwhile, the Group’s ability to estimate expenditure scientifically, to enforce stringent control in procurement and production costs, and to improve its operational management service standards, helped achieving the rapid expansion of business scale and significant growth of sales revenue and profits, and the Group had established a solid foundation in sustaining a healthy and rapid development position.

FINANCIAL PERFORMANCE

During the Period, the Group's turnover was approximately HK\$895.3 million (corresponding period in 2010: approximately HK\$549.9 million), of which approximately HK\$548.4 million (representing 61.3% of the Group's total turnover) was derived from traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing an increase of approximately 37.4% as compared to the corresponding period last year. During the Period, sales in bio-pharmaceutical products was approximately HK\$200.1 million, (representing 22.4% of the Group's total turnover), representing an increase of approximately 32.6% as compared to the corresponding period last year. Approximately HK\$146.8 million of the Group's turnover during the Period was attributable to trading business.

During the Period, the Group recorded a profit attributable to the owners of the Company of HK\$170.5 million, representing a decrease of approximately 39.6% as compared to the corresponding period last year. The decrease is mainly due to the recognition of an one-off gain on deemed disposal of a subsidiary in corresponding period of last year. During the Period, the Group recorded a profit attributable to the owners of the Company from continuing operations of HK\$170.5 million, representing an increase of approximately 38.2% as compared to the corresponding period last year.

MARKET PERFORMANCE

During the Period, for prescription drugs, our core products include four exclusive products in National Medical Insurance Catalogue, namely “**Qijiao Shengbai Capsules (芪膠升白膠囊)**”, “**Zhisou Huatan Pills (止嗽化痰丸)**”, “**Yi Fu (易孚)**” and “**Yi Bei (易貝)**”. The Group placed emphasis on boosting clinical academic promotion, expert guidance and rational drug application by doctors, adoption of such methods alternately in key regions and key hospitals. Those strategies have brought the Group with excellent results, and thereby forming a growth pattern of the sales volume of the exclusive products in National Medical Insurance Catalogue which also boost the sales of other types of products. This pattern has provided a practical security for the growth of the Group. Of which, sales revenue of “**Qijiao Shengbai Capsules (芪膠升白膠囊)**”, “**Zhisou Huatan Pills (止嗽化痰丸)**”, “**Yi Fu (易孚)**” & “**Yi Bei (易貝)**” for the Period were approximately HK\$117.4 million, HK\$35.1 million and HK\$187.5 million respectively and had recorded growth rate of 110.9%, 111.1% and 40.8% respectively, as compared with the same period last year. For OTC drugs, our core product is “**Fuke Zaizaowan (婦科再造丸)**” (including capsules). The Group placed emphasis on constructing channels and marketing team and at the same time, excavated the unique functions and curative effects of the product, developed and leveraged on the brand promotion

effect to actively expand our brand awareness and sales of products. During the Period, “**Fuke Zaizaowan (婦科再造丸)**” (including capsules) recorded sales revenue of approximately HK\$144.9 million, representing an increase in sales revenue of 41.9% as compared with the same period last year, and was among the top four, in terms of sales volume, of the domestic gynecological recuperating products. Product categories under the National Essential Drugs Catalogue (《國家基本藥物目錄》) (“**National Essential Drugs Catalogue**”) recorded sales revenue of approximately HK\$40.6 million during the Period representing 10.7% growth as compared with the same period last year.

RESEARCH AND DEVELOPMENT

During the Period, the Group continued to conduct research and development activities entwining raw materials like human placenta and cord blood, with the purpose of establishing an international leading, complete and high-ended product and technology chain within this industry. The Group’s “**Guizhou Province Stem Cell and Tissue Engineering Technology Research Centre (貴州省幹細胞與組織工程技術研究中心)**” continued to participate in the research of “**Mesenchymal Stem Cell Project (間充質幹細胞項目)**” in Guizhou Province, and is closely co-operating with Chinese Academy of Science (中國科學院) and Shenzhen Beike Bio-technology Company Ltd. (“**Beike Bio-technology**”) (深圳市北科生物科技有限公司(「北科生物」)) to jointly research and develop the bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.,. During the Period, the Group obtained a total of 13 national patents in the PRC.

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Period, for the production facilities construction, Guizhou Factorr’s project of “**Human Nerve Growing Factor Injection (人神經生長因子注射劑)**” had completed all the works prior to State GMP certification, and is pending for the formal report of National Institutes for Bio-pharmaceutical Products Certification (中國生物製品檢定所). For “**Key Laboratory of Stem Cell Research (幹細胞重點研究實驗室)**” and “**Cord Blood Library (臍帶血庫)**” projects (under the co-operation with Beike Bio-technology (北科生物)), factory roof-capping are completed, orders for equipments are placed, and they are expected to be completed by June 2012. For the “**Placenta Blood Albumin (人胎盤血白蛋白)**” project (under the co-operation with National Vaccine & Serum Institute (北京生物製品所)), factory roof-capping is completed, orders for equipments are placed and it is expected to be

completed by the end of 2012. The construction of the office and inspection of the building of the Group is completed and will be put into use in early 2012. In order to support the development of the Group, Guiyang High and New Technology Zone (貴陽高新區) intends to grant a parcel of land with an area of approximately 500 mu to the Group in the industrial zone with extremely preferential policies. The procedures are now in progress.

For cost control, the Group will potentially pay more attention and strive to control the escalating cost of production. During the Period, as affected by domestic economy, the prices of Chinese medicine materials, coal, labor and logistics had increased substantially. The measures adopted by the Group include: annual bulk purchase of Chinese medicine materials in which total purchase volume and unit price will be determined on an one-off basis, and for important purchasing contracts, the Group will implement a payment-in-advance system. Bulk goods purchasing will be made by tender. In budget management, staff costs of different departments and subsidiaries will be required by authorisation and approval and key areas of the approval will be reviewed. The vehicle management system will be further improved with budgeting for single vehicle costs. These measures had effectively decreased the Group's pressure as a result of rising costs.

INVESTMENT AND CO-OPERATION

Magic Holdings International Limited (“**Magic Holdings**”) is an investment enterprise of the Group. During the Period, the result of Magic Holdings continued to grow rapidly, and its brand awareness and reputation had been further enhanced. The Group's investment in beauty products business had generated enormous returns.

The Group had carried out a co-operation project with Beike Bio-technology (北科生物), being “**Guizhou Province Stem Cell Regeneration Medicine Industrialisation Base (貴州省幹細胞再生醫學產業化基地)**”, of which its specific contents include: jointly invested RMB300.0 million on the construction of project in Guizhou Province to establish the Key Laboratory of Stem Cell Research (幹細胞重點研究實驗室), Stem Cell Library (幹細胞庫), Regeneration Medicine Centre (再生醫學中心) and Anti-aging Stem Cell Healthcare Base (幹細胞抗衰老康健基地). Currently, the construction of Key Laboratory of Stem Cell Research and Stem Cell Library are in progress.

The Group is negotiating with National Vaccine & Serum Institute (北京生物製品所) to carry out in-depth co-operation on human placenta series drugs which are related to “**Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)**”, “**Placenta Pills (人胎盤片)**”, and “**Placenta Tissue Fluid Injection (人胎盤組織液注射劑)**”.

The Group entered into a strategic co-operative agreement with Guangzhou Ogilvy Advertising Company Limited (“**Guangzhou Ogilvy**”) (廣州奧美廣告有限公司) in 2011. Guangzhou Ogilvy will be fully responsible for the marketing planning, marketing proposal design and advertising production of the Group’s OTC products. Currently, the co-operation of both parties is running smoothly.

TEAM BUILDING

During the Period, the Group continued to forge a professional, diligent and responsible team full of enthusiasm in business venture and with innovative spirit. Mr. Yao Chang Fa, a member of management of the Group, was awarded the “**Outstanding Entrepreneur of Guizhou Province** (貴州省優秀企業家)” in late 2011.

PROSPECTS

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

The Directors consider that, under the guidance of three-year leaping-forward development plan, the Group will continue to promote the overall development strategies that have already been set. These strategies are to consolidate the channel and internal resources system, adapt to the industry and market changes brought by the “**new medical reform**”, perfect the business model that will drive the overall growth of prescription drugs with the exclusive products in National Medical Insurance Catalogue being the core products, so as to establish the opportunity of being a national brand and accelerate the growth of OTC products; speed up the research and development of new bio-albumin products that have independent intellectual property rights to form the Group’s on-going competitiveness based on innovative drugs; continue to structure the management system that can reflect positively the market value of the Group, so as to enhance and protect shareholders’ interests.

The specific missions are to:–

1. take marketing as the lead to further improve our market share. Prescription drugs marketing: while continuing to have “**Yi Fu (易孚)**”, “**Yi Bei (易貝)**”, “**Qijiao Shengbai Capsules (芪膠升白膠囊)**” and “**Zhisou Huatan Pills (止嗽化痰丸)**” as principal products, there is also the need to prepare well for having the principal products leading the development of other products. Increase our promotional efforts with hospitals so that doctors use those products as principal prescription in their medical diagnosis. Meanwhile, we continue to promote the “**Village Plan (鄉村計劃)**”. The penetration of sub-county market and community hospitals the Group will enhance the market share of product categories under the National Essential Drugs Catalogue. OTC drugs marketing: by establishing the opportunity of “**Fuke Zaizaowan (婦科再造丸) (Capsules)**” to be the number one brand of curing cold disease for Chinese females, and while stepping its foothold onto the nationwide and important regions of the drugs chain store mechanism, we will follow up by investing in advertising and floor-to-floor promotion to increase single shop sales.
2. carefully organise the production and planning layout under the guidance of the State’s new GMP standards. Construct a complete and structural pharmaceutical production base by using human placenta and cord blood as basic materials. Apart from ensuring the “**Human Nerve Growing Factor Injection (人神經生長因子注射劑)**” to be introduced into the market in the fiscal year 2012, the placenta product projects like “**Placenta Blood Albumin (人胎盤血白蛋白)**”, “**Key Laboratory of Stem Cell Research (幹細胞重點研究實驗室)**” and “**Stem Cell Library (幹細胞庫)**” projects are expected to be completed and put into operation in 2012. By fully capitalising on the preferential policies granted by the government, we will prepare well for constructing new production base and obtain government approval according to the State’s new GMP standards and the Group’s long-term development plan. We will emphasise on product quality, strengthen the accountability system, strictly control all aspects such as purchase of raw materials, processing, inspection, storage and transportation, and thereby realising the participation in quality management by all staff throughout the entire process in all directions.

3. firmly grasp the current valuable opportunities for being innovative in new drugs and technologies so as to accelerate the development of new products and new technologies. Based on the Group's product chain plan and market demand, by leveraging on the existing platform, we aim to create new form of co-operation mechanism to conduct multi-level co-operation with domestic and international medicine research and development institutions with excellent innovation capacity in the areas of bioengineering protein drugs and polypeptide products, genetic therapy medicine and stem cell therapy products, and recruit outstanding scientists to strengthen the Group's research and development team. We will utilise effectively the government's encouraging innovation fund to make free and continuous investments and constantly launch new products and technologies. At the same time, by better grasping and controlling the research and development rhythm correctly, we will refine the arrangements between investment and progress and introduce risk control mechanism and respective positioning set up, thereby the research and development risk can be avoided realistically.
4. introduce concept and approach of market capitalisation management based on the distinct characteristics of Hong Kong capital market. By arranging regular meetings among management and investors, reporting the results and primary working status of the Group in a timely manner to enhance the communication with investors; through the re-engineering of the Group's strengths in strategy, product, competitiveness, growth, financial planning and costs, and human resources, the mechanism of the Group's value will be more complete and clearer, and will induce the capital market to form an accurate evaluation of the Group, thereby resulting in a stable growth of market value aligning with the Group's development;
5. increase our efforts in recruiting talents in high-level technology, production management, and marketing and sales based on the development needs of the Group's business. At the same time, strengthen the training of our staff at work, especially long-serviced staff, improve their quality and provide them development opportunities. Furthermore, through the re-designing of incentive mechanism, make it more attractive and challenging, so that it will motivate our staff. Through thorough thinking, summing up and refining, the Group will advocate and form a more efficient, advancing and accommodating enterprise culture.

6. while actively developing the PRC market, the Group will enhance our relationship with the government. We will proactively incorporate the Group's development into the massive domestic economic development layout and devote more contributions in increasing government fiscal income, solving unemployment problems and driving up 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 layout; continue to strive for more investments and support from the respective government authorities regarding the development and technology re-engineering of the Group.

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2011, the Group had unpledged cash and bank balances of approximately HK\$1,444.8 million (30 June 2011: approximately HK\$1,456.6 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 1.0% (30 June 2011: approximately 1.0%). Net current assets was approximately HK\$1,983.2 million (30 June 2011: approximately HK\$2,179.2 million) and the current ratio was maintained at the healthy level of approximately 7.0 (30 June 2011: approximately 10.0) as at 31 December 2011.

The finance costs of the Group for the Period amounted to approximately HK\$1.2 million (corresponding period in 2010: approximately HK\$1.2 million), representing approximately 0.1% (corresponding period in 2010: approximately 0.2%) of the Group's total turnover and there is no significant change in finance costs over the corresponding period in 2010.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities (30 June 2011: Nil).

BANK BORROWINGS

As at 31 December 2011, the Group had outstanding bank loans of approximately HK\$33.2 million from the banks in the PRC (30 June 2011: approximately HK\$32.3 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 2011, the Group's bank borrowings were secured by certain prepaid land lease payments and buildings of the Group.

SEASONAL OR CYCLICAL FACTORS

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

FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly generated revenue and incurred costs in Renminbi. The exchange rate for Renminbi did not fluctuate materially during the Period. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Period, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these were calculated with reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

COMMITMENTS

As at 31 December 2011, the Group had contracted commitments of approximately HK\$0.7 million (30 June 2011: approximately HK\$0.7 million), approximately HK\$78.6 million (30 June 2011: approximately HK\$84.1 million) in respect of purchases of technical knowhow/ patent and construction of property, plant and equipment, respectively.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2011, the continuing business of Group had a total of 1,090 employees (corresponding period in 2010: 1,180), of whom 1,081 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 under continuing business of the Group (including Directors' remunerations) amounted to approximately HK\$18,490,000 (corresponding period in 2010: approximately HK\$20,708,000). Staff costs under continuing business of the Group accounted for 2.1% of the Group's turnover (corresponding period in 2010: 3.8%) 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 2010: Nil).

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

Hong Kong, 28 February 2012

As at the date of this announcement, the Board comprises Mr. Zhang Peter Y., Mr. Deng Jie, Mr. Long Xian Feng and Mr. Zhou Chong Ke as executive Directors, Mr. Wee Ee Lim (Ms. Lim Seok Bin Zann as his alternate) and Mr. Tarn Sien Hao as non-executive Directors, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming Matthew as independent non-executive Directors.