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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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2014

ANNUAL RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Company**”) is pleased to announce the consolidated final results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 30 June 2014 (“**Year**”) together with the comparative amounts for the previous year as follows. The final results have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the Year ended 30 June 2014

	Notes	2014 HK\$'000	2013 HK\$'000
REVENUE	4	1,860,189	1,754,392
Cost of sales		<u>(518,075)</u>	<u>(387,032)</u>
Gross profit		1,342,114	1,367,360
Other income	4	24,858	13,571
Selling and distribution expenses		(643,620)	(879,790)
Administrative expenses		(118,298)	(120,555)
Share-based payments		(83,650)	(28,058)
Impairment of an intangible asset		(8,386)	–
Impairment of items of property, plant and equipment		(11,913)	–
Impairment of deferred expenditure		–	(47,491)
Gain on disposal of an available-for-sale investment		–	19,582
Share of loss of an associate		(249)	(1,568)
Finance costs	5	<u>(1,736)</u>	<u>(1,960)</u>
PROFIT BEFORE TAX	6	499,120	321,091
Income tax expense	7	<u>(144,963)</u>	<u>(97,766)</u>
PROFIT FOR THE YEAR		<u>354,157</u>	<u>223,325</u>

	<i>Notes</i>	2014 HK\$'000	2013 HK\$'000
Attributable to:			
Owners of the Company		341,314	223,041
Non-controlling interests		12,843	284
		<u>354,157</u>	<u>223,325</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	9		(Restated)
— Basic		<u>HK8.65 cents</u>	<u>HK6.19 cents</u>
— Diluted		<u>HK8.62 cents</u>	<u>HK6.13 cents</u>

Details of the dividends are disclosed in note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 June 2014

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
PROFIT FOR THE YEAR	354,157	223,325
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
<i>Items that will not be reclassified to income statement in subsequent periods:</i>		
Gains/(loss) on revaluation of buildings, net	(496)	13,741
Deferred tax arising from revaluation on buildings	590	(2,928)
	94	10,813
<i>Items that may be reclassified to income statement in subsequent periods:</i>		
Exchange differences on translation of foreign operations		
— subsidiaries	10,405	163,239
— associate	78	—
	10,483	163,239
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	10,577	174,052
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	364,734	397,377
Attributable to:		
Owners of the Company	352,922	389,532
Non-controlling interests	11,812	7,845
	364,734	397,377

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	2014 HK\$'000	2013 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		472,024	361,560
Prepaid land lease payments		28,964	29,705
Intangible assets		123,110	164,220
Deferred expenditure		51,651	51,471
Goodwill		110,273	110,273
Investments in joint ventures		18,885	–
Investment in an associate		370,557	374,742
Deposits	<i>10</i>	959,313	467,093
Deferred tax assets		34,202	43,915
Total non-current assets		2,168,979	1,602,979
CURRENT ASSETS			
Inventories		43,239	41,383
Trade receivables	<i>11</i>	917,018	659,924
Prepayments, deposits and other receivables		17,293	43,605
Tax recoverable		5,523	6,815
Cash and cash equivalents		2,725,335	2,799,436
Total current assets		3,708,408	3,551,163
CURRENT LIABILITIES			
Trade payables	<i>12</i>	59,494	51,854
Other payables and accruals		121,320	139,769
Obligation under a finance lease		31	89
Interest-bearing bank borrowings		37,794	25,108
Tax payable		173,498	125,941
Total current liabilities		392,137	342,761
NET CURRENT ASSETS		3,316,271	3,208,402
TOTAL ASSETS LESS CURRENT LIABILITIES		5,485,250	4,811,381
NON-CURRENT LIABILITIES			
Obligation under a finance lease		–	31
Deferred tax liabilities		48,944	55,868
Deferred income		12,598	17,576
Total non-current liabilities		61,542	73,475
Net assets		5,423,708	4,737,906

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 30 June 2014

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	408,408	317,009
Reserves	4,812,440	4,229,849
	5,220,848	4,546,858
Non-controlling interests	202,860	191,048
Total equity	5,423,708	4,737,906

NOTES

For the Year ended 30 June 2014

1. CORPORATE INFORMATION

Hua Han Bio-Pharmaceutical Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Unit 3405, 34th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

During the Year, the Group was involved in the following principal activities:

- manufacture and sale of pharmaceutical products, medicinal healthcare products for women and bio-pharmaceutical products
- trading of pharmaceutical products
- research and development of pharmaceutical products

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i> (early adopted)
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 12, HKFRS 13, amendments to HKFRS 10, HKFRS 11 and HKFRS 12, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 July 2013.

- (b) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.
- (c) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10, HKFRS 11 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.
- (d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

3. OPERATING SEGMENT INFORMATION

The Group has only one business segment, namely pharmaceutical products, and accordingly no business segment information is presented. No geographical segment information is presented as the Group's revenue is solely derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about a major customer

Revenue of HK\$535,438,000 (2013: HK\$473,158,000) was derived from sales to a single customer during the year ended 30 June 2014, including sales to a group of entities which are known to be under common control with that customer.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue and other income is as follows:

	2014 HK\$'000	2013 HK\$'000
Revenue		
Sale of goods	1,907,755	1,916,168
Less: rebates	(47,566)	(161,776)
	<u>1,860,189</u>	<u>1,754,392</u>
Other income		
Bank interest income	19,805	8,628
Recognition of deferred income on distribution rights	5,053	4,943
	<u>24,858</u>	<u>13,571</u>

5. FINANCE COSTS

	2014 HK\$'000	2013 HK\$'000
Interest on bank loans wholly repayable within five years	1,730	1,948
Interest on a finance lease	6	12
	<u>1,736</u>	<u>1,960</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2014 HK\$'000	2013 HK\$'000
Cost of inventories sold	<u>518,075</u>	<u>387,032</u>
Depreciation	19,496	18,106
Amortisation of intangible assets ¹	33,205	33,238
Amortisation of prepaid land lease payments	848	747
Research and development costs	3,067	4,201
Minimum lease payments under operating leases in respect of land and buildings	2,563	2,678
Auditors' remuneration	2,400	2,400
Employee benefits expense (including directors' and chief executive's remuneration):		
Wages and salaries	57,037	53,457
Share-based payments	67,370	28,058
Pension scheme contributions ²	7,505	6,143
	<u>131,912</u>	<u>87,658</u>
Foreign exchange differences, net	-	35
Impairment of deferred expenditure	-	47,491
Impairment of an intangible asset	8,386	-
Reversal of impairment of trade receivables ³	(2,469)	(961)
Impairment of items of property, plant and equipment	11,913	-
Impairment/(reversal of impairment) of other receivables ³	884	(79)
Loss/(gain) on disposal of items of property, plant and equipment	11	(3)
Gain on disposal of an available-for-sale investment ⁴	-	(19,582)

Notes:

- 1 The amortisation of intangible assets for the Year is included in "Cost of sales" in the consolidated income statement.
- 2 At 30 June 2014, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2013: Nil).
- 3 Reversal of impairment of trade receivables and impairment/(reversal of impairment) of other receivables are included in "Administrative expenses" in the consolidated income statement.
- 4 A gain on disposal of HK\$19,582,000 for the year ended 30 June 2013 was resulted from a disposal of a listed equity investment by the Group at an aggregate consideration of HK\$290,485,000 with related expenses of HK\$452,000 during the year ended 30 June 2013.

7 INCOME TAX EXPENSE

	2014 HK\$'000	2013 HK\$'000
Current — Mainland China		
Charge for the year	142,568	143,840
Underprovision in prior years	176	121
Deferred	<u>2,219</u>	<u>(46,195)</u>
Total tax charge for the year	<u>144,963</u>	<u>97,766</u>

8. DIVIDENDS

	2014 HK\$'000	2013 HK\$'000
Dividends paid during the year:		
Final dividend in respect of the financial year ended 30 June 2013		
— HK2.3 cents per ordinary share		
(2013: HK3.4 cents per ordinary share in respect of the financial year ended 30 June 2012)	73,378	84,226
Special dividend in respect of the financial year ended 30 June 2013		
— HK4.0 cents per ordinary share (2013: HK5 cents) per ordinary share	<u>127,616</u>	<u>123,861</u>
	<u>200,994</u>	<u>208,087</u>
Proposed dividend:		
Final — HK3.6 cents (2013: HK2.3 cents) per ordinary share	147,027	72,912
Special — Nil (2013: HK4.0 cents) per ordinary share	<u>—</u>	<u>126,804</u>
	<u>147,027</u>	<u>199,716</u>

The proposed final dividend of HK\$147,027,000, representing HK3.6 cents per share, and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares for the year ended 30 June 2014 is subject to the approval of the Company's shareholders at the Company's annual general meeting to be held on 19 December 2014. These financial statements do not reflect the dividend payable.

The proposed final and special dividends of HK\$72,912,000 and HK\$126,804,000, representing HK2.3 cents and HK4.0 cents per share, respectively, and a bonus issue of shares on the basis of 1 new ordinary share for every 5 existing ordinary shares (the "2013 Bonus Issue") for the year ended 30 June 2013 were approved by the Company's shareholders at the Company's annual general meeting on 20 December 2013. The final and special dividends of HK2.3 cents and HK4.0 cents per share, respectively, for the year ended 30 June 2013 were satisfied by cash payment. On 22 January 2014, 638,079,656 shares of HK\$0.1 each were issued to satisfy the 2013 Bonus Issue. The dividend payable was not reflected in the financial statements as at 30 June 2013.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	2014 HK\$'000	2013 HK\$'000
Earnings:		
Profit for the year attributable to owners of the Company	<u>341,314</u>	<u>223,041</u>
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (2013: restated to reflect the effect of the 2013 Bonus Issue)	3,943,977	3,601,943
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year (2013: restated to reflect the effect of the 2013 Bonus Issue)	<u>13,472</u>	<u>36,841</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share (2013: restated to reflect the effect of the 2013 Bonus Issue)	<u>3,957,449</u>	<u>3,638,784</u>

10. DEPOSITS

	2014 HK\$'000	2013 HK\$'000
Deposits paid in respect of:		
Acquisition of items of machines and equipment (<i>note (a)</i>)	507,045	200,949
Acquisition of prepaid land lease payments (<i>note (b)</i>)	251,960	251,080
Acquisition of plant and machineries (<i>note (c)</i>)	192,749	–
Acquisition of intangible assets	<u>7,559</u>	<u>15,064</u>
	<u>959,313</u>	<u>467,093</u>

Notes:

- (a) Included in the balance are the upfront deposits of HK\$188,993,000 (2013: HK\$194,587,000) and HK\$318,052,000 (2013: Nil) paid upon entering into the purchase agreements with Guizhou Shunzhi Trade Co., Ltd. (“**Guizhou Shunzhi**”) on 9 May 2011 and 18 December 2013 respectively. Pursuant to the purchase agreements, Guizhou Shunzhi will be responsible for the sourcing of machines and equipment for the production of Human Placental Serum Albumin for the pharmaceutical research centre and the new production plants (collectively the “**New Plant**”) of the Group.

These plant and equipment were not yet received at 30 June 2014 and the amount is classified as deposits paid for acquisition of machines and equipment and included in non-current assets.

- (b) Pursuant to the agreement entered into between the Group and 貴陽高科控股集團有限公司 (the “Land Vendor”) dated 25 October 2011, the Group agreed to acquire the Land with an aggregate area of approximately 521 mu (equivalent to approximately 347,000 square metres) at a consideration of RMB250,000,000. The Land would be used by the New Plant of the Group.

An upfront deposit of prepaid land lease payments of RMB200,000,000 (equivalent to HK\$251,960,000 (2013: HK\$251,080,000)) has been made by the Group as at 30 June 2014. The transfer of the title of the Land is under the registration process and the amount is classified as a deposit paid for acquisition of prepaid land lease payments and included in non-current assets.

- (c) During the year, the Company made payments totaling RMB153 million (equivalent to HK\$193 million) (the “Deposit”) to 貴州漢方(集團)有限公司 (“漢方集團”), a company established in PRC, for 漢方集團 to construct the stem cell plant and machineries on behalf of the Group. Certain shareholders and directors of 漢方集團 are also the directors of the Company.

Subsequent to the year end, management changed the plan and considered to properly set up a structured entity to construct the stem cell plant and machineries and carry out the stem cell business. Accordingly, the Deposits were subsequently refunded to the Group in September 2014. Details of the construction of stem cell storage bank are set out in note 13(a).

11. TRADE RECEIVABLES

The Group’s trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of four to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group had a certain concentration of credit risk as 21% (2013: 28%) and 41% (2013: 41%) of the total trade receivables were due from the largest customer and the five largest customers, respectively. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

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

	2014 HK\$’000	2013 HK\$’000
Within 3 months	317,219	474,661
3 months to 6 months	165,582	76,114
Over 6 months	433,599	109,149
Over 1 year	618	–
	<u>917,018</u>	<u>659,924</u>

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2014 HK\$'000	2013 HK\$'000
Within 3 months	41,309	37,292
3 months to 6 months	5,089	6,461
6 months to 1 year	9,826	3,581
Over 1 year	3,220	4,520
	<u>59,494</u>	<u>51,854</u>

The trade payables are non-interest-bearing and are normally settled on 90-day to 180-day terms.

13. EVENTS AFTER THE REPORTING PERIOD

The Group had the following events after the reporting period:

- (a) On 23 July 2014, the Group entered into a cooperation framework agreement (the “**Cooperation Framework Agreement**”) with the People’s Government of Liupanshui City of Guizhou Province (the “**Liupanshui Government**”).

Pursuant to the Cooperation Framework Agreement, Liupanshui Government would invite the Group to participate in the reform of the medical service system of Liupanshui City in order to enhance the development of medical services in Liupanshui City by (i) invest, operate and manage two hospitals, namely 水城礦業集團有限責任公司總醫院 and 首鋼水城鋼鐵(集團)有限責任公司總醫院, in Liupanshui City; (ii) entrust the Group to invest, operate and manage the value-added medical services and supply chain of 六盤水市第二人民醫院 and 六盤水市婦幼保健院 under the Trust, Invest, Operate and Transfer (“**TIOT**”) model; and (iii) construct stem cell anti-aging healthcare base, stem cells private storage bank with a storage capacity of 200,000 units and stem cell public storage bank with a storage capacity of 1,000,000 units sourced from placenta, cord blood and umbilical cord by the end of year 2015. Further details are set out in the Company’s announcements dated 23 July 2014 and 24 July 2014.

- (b) Further to the Cooperation Framework Agreement, on 18 August 2014, the Group and Liupanshui Government have entered into the TIOT Cooperation Agreement (the “**TIOT Agreement**”). Pursuant to the TIOT Agreement, Liupanshui Government entrust the Group to invest, operate and manage the value-added medical services and supply chain of 六盤水市人民醫院 (the “**People’s Hospital**”) under the TIOT model for a fixed term of 20 years. At the end of the term, the operating right and the assets invested will be transferred to the Liupanshui Government. In addition, the Group agreed to invest with the People’s Hospital at an agreed investment ratio, to construct a new hospital, 六盤水市涼都人民醫院 (the “**New Hospital**”).

On 5 September 2014, the Group and the People’s Hospital have entered into the Healthcare Investment and Operation Management Cooperation Agreement (the “**Management Agreement**”). Pursuant to the Management Agreement, the People’s Hospital entrust the Group to invest, operate and manage the value-added medical services, supply chain and medical outsourcing service (collectively the “**Medical Services**”) of the People’s Hospital for a term of 20 years commencing from 1 October 2014 and the profits generated from these Medical Services would be shared between the Group and the People’s Hospital at an agreed profit sharing ratio. In addition, the Group will receive an annual management fee income based on a fixed percentage of medical income of the People’s Hospital.

- (c) Furthermore, on 5 September 2014, the Group has entered into another cooperation agreement (“**New Hospital Agreement**”) with the People’s Hospital and Liupanshui Government to set up and construct a new hospital (the “**New Hospital**”) in Liupanshui City, Guizhou Province. The registered capital of the New Hospital will be RMB200 million (approximately HK\$252 million), of which RMB136 million (approximately HK\$171 million) or 68% of the registered capital would be invested by the Group. Up to the date of this announcement, the New Hospital has not yet been established.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MARKET REVIEW

During the Year, the PRC pharmaceutical industry continued to maintain a high growth. According to the statistics from the National Bureau of Statistics of China, sales revenue of PRC pharmaceutical industry reached RMB2,168.16 billion in 2013, representing a year-on-year increase of 26.9%; with a recorded profit of RMB219.7 billion, representing a year-on-year increase of 26.8%. During the period from January to June 2014, sales revenue of the PRC pharmaceutical industry reached RMB1,120 billion, representing a year-on-year increase of 18.0%; with a recorded profit of RMB114.6 billion, representing a year-on-year increase of 25.0%. Continuous expansion of the PRC pharmaceutical market were driven by the following factors. Firstly, the pace of population aging has been accelerating and common geriatric diseases, such as cancer, cardiovascular diseases, diabetes mellitus and neurological disorders, ranked top in terms of morbidity rate and the relevant treatment costs. Secondly, the coverage of national medical insurance system has become more comprehensive, and medical insurance premium is increasing at a faster pace. Thirdly, the government has been continuously enhancing its support to public healthcare, urban community hospitals and county hospitals, especially township health centres, have been developing rapidly while medical conditions significantly improved. Fourthly, the demand for healthcare services kept rising due to increasing affordability of urban residents. However, the growth rate of the pharmaceutical industry continued to slow down due to the effect of the overall downward trend of China’s GDP.

During the Year, there were some new features witnessed in the PRC pharmaceutical industry. The PRC government strengthened its supervision efforts toward the pharmaceutical industry with various law enforcement agencies carrying out specific actions in the fight against commercial bribes in the sale and purchase of pharmaceutical products to promote standardised, healthy and sustainable development of pharmaceutical enterprises. The time limit requirements under the new Good Manufacturing Practice (“**GMP**”) accreditation and the substantial increase in fixed asset investments accelerated the process of resources integration in the pharmaceutical manufacturing industry. Domestic listed companies have replaced foreign pharmaceutical conglomerates as the initiators of intensified mergers, acquisitions and reorganisations. Drug tenders became the government’s key measure to

control drug prices and to regulate the market. The PRC government has issued the “Several Opinions of the State Council on Promoting the Development of Health Service Industry” (《國務院關於促進健康服務業發展的若干意見》) to encourage the entry of social enterprises into the medical services sector, and hospitals become hotspots of capital investment from different sources. More new products and technologies were introduced to the industry. However, due to the lengthy approval time, it was not an easy task to control the increasing risks.

The investigation of certain large foreign-invested pharmaceutical factories by the China Food and Drug Administration brought a great impact on the pharmaceutical industry, and industry rectification and self-discipline has changed the competitive landscape of the industry. Chinese medicine had gained strong backup from government policies. More Chinese medicines are listed in the “Essential Drug List” (基本藥物目錄), leading to rapid growth in the Chinese medicine manufacturing industry, reaching a market share of nearly 30%. Pharmaceutical enterprises are increasing their investments in new drugs and new technologies. However, the review and assessment process of new drugs in China is complicated and time-consuming, increased the research and development cost of new drugs and delayed their market launch, resulting in higher risks for the manufacturing of new drugs. The Directors are of the view that the launch of National GMP accreditation standards, which are comparable to the GMP requirements of Europe and the World Health Organisation, in the long run, will help to consolidate the pharmaceutical industry, give impetus to industry upgrade as well as the modernisation and internationalisation of medicine preparation. Domestic listed companies played an important role in the intensified of merger, acquisition and reorganisations in the PRC pharmaceutical market. The Essential Drug List and Medical Insurance Catalogue and the tendering procedures are becoming the permit for entering the pharmaceutical industry.

During the Year, the “12th Five-Year Plan in China Pharmaceutical Industry” (中國醫藥工業十二五規劃) has been implemented, which mainly targeted to facilitate transformation, upgrade and rapid development of the pharmaceutical industry, accelerate the pace of drug innovation, especially bio-technical medicine among which neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products were among the first batch of the key development areas. The Plan also encouraged the central-western region to develop distinctive pharmaceutical manufacturing industry, and strengthening of the reservation, development as well as application of Chinese medicine and ethnic medicine resources. At the same time, it stipulated to enhance the quality and safety standards of pharmaceutical products, reinforced the major responsibility of enterprises in terms of quality control and encouraged the enterprises to perfect its quality management system.

Undoubtedly, the PRC pharmaceutical market has entered into a great era. Enterprises with strong development prospects, market oriented development strategies, unique product portfolio and leading technologies, strong and well-established nationwide end-user sales and marketing network and excellent executive abilities will eventually outrun other competitors in the market and become a large home-grown pharmaceutical enterprise which is well-equipped to compete internationally. At the same time, the medical service market in China is fully open, and its market capacity and high growth prospects are unanimously considered to be promising. If this rare historical opportunity is seized to integrate resources rapidly and to invest boldly, giant companies may be developed.

BUSINESS REVIEW

During the Year, against the backdrop of the rapid development of the domestic pharmaceutical market, tighter government control and intense market competition, the Group adopted proactive measures to sustain growth for the results of the Group. The Group continued to focus on critical areas of its designated development strategy, and established a new sales model through promoting the exclusive National Medical Insurance Catalogue (the “**National Medical Insurance Catalogue**” (醫保目錄)) products to drive the sales of prescription drugs, and promoting the exclusively branded product categories to drive the sales of over-the-counters (the “**OTC**”) drugs. Maintaining a steady growth of traditional Chinese medicines specialising in gynecological pharmaceutical products, together with developing bio-pharmaceutical medicines technologies, formed a new structure for the Group’s future development. Meanwhile, the Group actively explores investment in public hospitals and the overall acquisition of businesses of state-owned hospitals. Progress has been made in the integration of medical resources of prefectural-level cities in Mainland China with the TIOT (“Trust, Investment, Operation and Transfer”) model. Furthermore, the Group strictly followed the GMP production standards and processes, and focused on and upheld product quality. With the Group’s ability to monitor expenditures, maintain stringent control over its procurement and production costs, as well as the operation philosophy on compliances and its focus on standardised market operation, the Group was able to expand its business scale and increase its sales revenue and profits substantially, thereby providing the Group with a solid foundation for furthering a sustainable, healthy and rapid development.

FINANCIAL PERFORMANCE

During the Year, the Group’s turnover was approximately HK\$1,860.2 million (corresponding period in 2013: approximately HK\$1,754.4 million). Out of the turnover, approximately HK\$1,212.5 million was derived from traditional Chinese medicines mainly specialising in pharmaceutical products, representing a decrease of approximately 11.0% as compared to the corresponding period last year. During the Year, sales in bio-pharmaceutical products was approximately HK\$498.1 million, representing a decrease of approximately 3.6% as compared to the corresponding period last year. Approximately HK\$149.6 million of the Group’s turnover during the Year was attributable to trading business.

During the Year, the Group recorded a profit attributable to the owners of the Company of HK\$341.3 million, representing an increase of approximately 53.0% as compared to the corresponding period last year.

During the Year, the lower growth in the Group’s turnover as compared to that of the previous financial year was mainly due to an adjustment to sales strategy which resulted in the settlement of several products based on base price.

NEW BUSINESS EXPANSION

The Group rapidly expanded into the medical service segment and invested public hospitals and state-owned hospitals with TIOT model and entered into a framework cooperation agreement with the Liupanshui provincial government on 23 July 2014 pursuant to which two public hospitals in Liupanshui City will be entrusted to the Group for operation and their overall investment and acquisition will be taken by the Group after another two state-owned hospitals have been transferred to the Liupanshui provincial government. On 18 August 2014, the Group had entered into an agreement with the Liupanshui City People's Government in relating to the entrusted operation of 六盤水市人民醫院 (unofficial translation being Liupanshui City People's Hospital) and then reached agreement with the Liupanshui City People's Hospital in respect of the consolidation of supply chain management, value-added services, service fee commission and joint construction of 六盤水市涼都人民醫院 (unofficial translation being Liupanshui City Liang Dou People's Hospital). Apart from this, the Group was in negotiations with several local governments in Mainland China over the healthcare issue including medical service investment projects. The Group took a major step forward in the development of medical service segment.

RESEARCH AND DEVELOPMENT

During the Year, the Group continued to conduct research and development activities in respect of raw materials like human placenta and cord blood, and began to establish a national leading, complete and high-end product and technology line within this industry. The Group achieved a breakthrough in the skills of separation, purification and extraction of human placenta protein. The Group continued to participate in the research of "Mesenchymal Stem Cell Project" (間充質幹細胞項目) in Guizhou Province, and closely cooperated with the Chinese Academy of Science (中國科學院) and Zunyi Medical College (遵義醫學院) to research and develop the bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. "Qijiao Shengbai Capsules (芪膠升白膠囊)" was granted as a major national science and technology project in 2014. Preliminary research and development work for improved and upgraded version of products such as "Sugar-free Astragalus Granule (無糖型黃芪顆粒)" (including capsules), "Recombinant Human Epidermal Growth Factor Eye-Gel (重組人表皮生長因子眼用凝膠)" are actively underway. At the end of March 2014, "Human Nerve Growth Factor Injections (人神經生長因子注射液)" was formally submitted to National Institutes for Food and Drug Control (中國食品藥品檢定院) for drug registration inspection, and the re-examination of product standard and samples inspection were passed in July 2014.

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Year, for the production facilities construction, the construction work of the Group's phase one plant of the pharmaceutical manufacturing base project located at Shawen Ecological Park (沙文生態園區) in Guiyang High and New Technology Zone (貴陽高新區) has been commenced, and the major equipments had been ordered, while the purification decoration of production workshops is underway. The facilities construction was designed as thirteen production workshops for seven types of dosage with a total gross floor area of 140,000 square metres. After completion, such facilities can handle up to 10,000 tonnes of Chinese medicine, with an annual production value of RMB8 billion.

The production base of “Recombinant Human Epidermal Growth Factor Raw Material (重組人表皮生長因子原料) and Expansion Project of Pharmaceutical Production Workshops (製劑生產車間擴建項目)” plant in Guilin was completed, and the major equipments had been received, while the purification decoration of production workshops is underway. The estimated investment for this project was approximately RMB200 million. The project included newly-built raw material and pharmaceutical production workshops with an area of 11,000 square metres and advanced overseas equipment was introduced. Projects of “Human Placenta Blood Albumin (人胎盤血白蛋白)”, “Human Placenta Pills (人胎盤片)” and “Human Placenta Tissue Fluid Injection (人胎盤組織液注射劑)” were officially launched and major equipment have been ordered. Among them, “Human Placenta Blood Albumin (人胎盤血白蛋白)” was granted with a production license by Guizhou Food and Drug Administration (貴州省藥監局).

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

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

During the Year, the Group submitted about 96 products and 110 specifications in 12 open tenders organised by various provincial governments, out of which a total of 84 products and 96 specifications were accepted. As at 30 June 2014, four exclusive products of the Group listed on the National Essential Drug List together with 11 exclusive products listed in 14 Provincial Essential Drug List and Medical Insurance Catalogue in total, and “Fuke Zaizaowan (婦科再造丸)”, “Zhisou Huatan Pills (止嗽化痰丸)”, “Yi Fu (易孚)” and “Yi Bei (易貝)” were included in “Essential Drug List of the Guangdong Province 2013 edition”(2013年版廣東省基本藥物目錄).

PRODUCT AUTHORISATION AND HONOR

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

INVESTMENT AND CO-OPERATION

During the Year, the Group and the National Vaccine & Serum Institute (北京生物製品所) cooperated in the projects of “Human Placenta Blood Albumin (人胎盤血白蛋白)”, including “Human Placenta Pills (人胎盤片)” and “Human Placenta Tissue Fluid Injection (人胎盤組織液注射劑)”. Transfer of product licenses and relevant data is under progress.

TEAM BUILDING

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

PROSPECTS

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

Meanwhile, the bio-pharmaceutical and bio-technological industry develops rapidly worldwide. As compared to the traditional synthetic chemical drugs, biopharmaceuticals, supported by more in depth research, boasting more extensive therapeutic functions and advantages, more room for innovative pharmaceutical designs and dosages improvement, and more responsive to new diseases, thus, these products can provide an industry wide re-pricing opportunity. It is estimated that bio-pharmaceutical products will account for more than one-third of the total drug sales by 2020. In line with this trend, the “12th Five- Year Plan in China Pharmaceutical Industry (中國醫藥工業十二五規劃)” introduced in PRC in 2012, gave for priority to the bio-pharmaceutical and bio-technological industry and promulated preferential policies to research and development, technological transformation and market access. Optimistic outlook for the development of bio-pharmaceutical and bio-technological industry is predictable.

In addition, driven by internal factors such as aging population, urbanisation and upgraded consumption as well as continuous expansions brought by the new healthcare reform, the pharmaceutical market is developing vigorously. Along with the growth in medical demand, the total healthcare expenditure has been increasing annually, which has risen by 3.8 times from RMB759 billion in 2004 to RMB2,894.1 billion in 2012 with an annual growth rate of 16.75%. The healthcare expenditure per capita in China has recorded a net growth of 3.2 times from RMB584 in 2004 to RMB2,108 in 2012 with an annual growth rate of 17.4%. The percentage of total healthcare expenditure to GDP is 5.5%, much lower than that of 17.9% in the U.S. and the average level of the world of 9.7%, and ranked 147 on the lower level among the 193 members of the World Health Organization. With the launch and implementation of new healthcare reform plan, relevant policies favourable to the medical service industry have been promulated and reforms targeting public hospitals have been accelerated, creating opportunity for social capitals to enter into the medical service industry. It has become the general trend to carry out the relevant integration policy of promoting reform and innovations

in the medical service industry with social capitals to secure rapid development of local medical service industry market in pursuant with the guidance of national industrial policy under the leadership of the government.

The Directors consider that, against the backdrop of the continuous improvement of the pharmaceutical market and under the guidance of the leaping-forward development plan, the Group will continue to promote the established overall development strategies. These strategies include consolidating the internal resources system; accelerating the construction of new facilities which were designed according to the new National GMP certification standards; perfecting the business model that will drive the overall growth of prescription drugs with focus on the exclusive products in the National Medical Insurance Catalogue, so as to sustain the market development of OTC products; devoting all efforts to ensure the commencement of production of placenta products such as “Human Nerve Growing Factor Injection (人神經生長因子注射液)” and “Placenta blood Albumin (人胎盤血白蛋白)” in expected time; undergoing research and development of new bio-albumin products, placenta blood products and stem cell products that have independent intellectual property rights in order to strengthen the Group’s on-going competitiveness based on innovative products and innovative technology; with the aim of exerting overall advantages and seeking new growth, immediately entering into medical service industry and making medical service an important and profitable business sector of the Group in the future through supply chain integration, value added service as well as integrated investment of hospital operation; structuring the management system that can positively reflect the estimated market value of the Group by the overall development strategy for general health, and enhance and safeguard Shareholders’ interests.

The specific missions of the Group are to:

1. Focus on marketing to further increase our market share. Prescription drugs marketing: in addition to positioning “Qijiao Shengbai Capsules (芪膠升白膠囊)”, “Yi Fu (易孚)” and “Yi Bei (易貝)” as our principal products, we are well-prepared to promote the development of other products by the principal products. As to “Qijiao Shengbai Capsules (芪膠升白膠囊)”, in addition to the original division of oncology, we accelerated the development of application to the retired cadres section and gynecology. Meanwhile, more human and financial resources will be devoted to regions including Yangtze River Delta, Beijing, Tianjin and Guangdong to achieve a larger sale scale. As to “Yi Fu (易孚)” and “Yi Bei (易貝)”, we have to take full advantage of product efficacy and technological advantages to boost academic promotion, so as to consolidate our leading position in the field of small-scale epidermal skin repair, in order to capture the whole provincial market speedily. OTC drugs marketing: we continue to establish “Fuke Zaizao Pills (婦科再造丸)” as a well-known brand of curing cold disease for Chinese females, and aptly add to the advertising efforts while focusing on its promotion through new media, with the view to increase singlestore sales by various means. In addition, through the close cooperation with established beauty parlors and professional chain stores, as well as different marketing and promotion initiatives to the multibranding strategy, we aim to secure rapid growth of “Golden Peptides (金紫肽)” line of products in the high-end health care products market.

2. Taking the opportunity brought by the National Medical Insurance Catalogue update, and leveraging on the Group's advantages in larger number of exclusive products and principal products, we will endeavour to gain government support in all possible ways, to include our advantageous products with independent intellectual property rights, reliable curing effect and those that can be widely applied in the National Medical Insurance Catalogue or Essential Drug List, while seeking to include products yet to be listed in the national catalogue to be included in the provincial catalogue.
3. Accelerating development of new business strategies of the Group following the guidance of the new National GMP Standards, we are committed to topping out the factory in the Group's Chinese patent drugs production base in Guiyang Shawen New District (貴陽沙文新區), which will be granted the new GMP accreditation and commence production by the end of March 2015. Production base of Guilin will be completed by the end of April 2015. The "Recombinant Human Epidermal Growth Factor Raw Material (重組人表皮生長因子原料), Expansion Project of Pharmaceutical Production Workshops (製劑生產車間擴建項目)" in the production base of Guilin will be completed by the end of this year and they will be granted the New GMP accreditation and will commence operation. We strive to complete the placenta product project of "Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)" in the biological base of Guiyang (貴陽生物基地) by the end of June 2015. With the support from the provincial government and relevant state departments, we will strengthen our efforts to ensure that the "Human Nerve Growing Factor Injection (人神經生長因子注射劑)" will gain GMP accreditation and commence operation. These projects will fully capitalise on the preferential policies promulgated by the government according to the PRC government's new GMP standards and the Group's long-term development plan. We will emphasise on product quality, strengthen the accountability system, strictly control all aspects such as purchase of raw materials, processing, inspection, storage and transportation, and thereby realising the participation in quality management by all staff throughout the entire process.
4. Following the guidance of the national industrial policy, we will seize the chance of diversification in the medical service industry and invest mainly in public hospitals with direct holding investment or TIOT model to achieve a breakthrough in one or more regions. We will establish a hospital management company to implement standardised operation management for members in the same region and exert the scale effect within the district. We will also introduce a series of medical value-added service projects through effective integration of industrial chain resources to create favourable social and economic results and investment returns. Details of the TIOT arrangement are set out in note 13.
5. According to the Group's research and development plan, we will cooperate with pharmaceutical research and development institutions such as the Chinese Academy of Science and Zunyi Medical College through existing platforms, to recruit distinguished scientists to build up the Group's research and development team, and endeavor to invent new bioengineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. We will accelerate the application of modern technology in the research and development as well as the production of Chinese medicine, and to enhance and perfect the technical standards and specifications of the whole industrial

chain of Chinese medicine. Improved and upgraded version of the products such as “Recombinant Human Epidermal Growth Factor Eye-Gel (重組人表皮生長因子眼用凝膠)” has entered the testing stage. We will utilise effectively the PRC government’s encouraging innovation fund to finance and make continuous contribution and launch new products and technologies. At the same time, by better grasping and controlling the research and development pace, we will refine the arrangements between investment and progress and introduce risk control mechanism and respective positioning set up, thereby avoiding the research and development risk practically.

6. In response to the market conditions, we will meticulously rearrange the market segments to better control any market competition. Based on different regional market conditions, we will select agents with advantages in terms of drug distribution channels, and form close cooperation to cope with the market and complement with each other’s advantages. We will, according to different target hospitals, design suitable transparent two-way value-added service systems that focus on academic research and clinical trials, and establish new partnerships with hospitals on the basis of mutual benefits.
7. Strengthening the cooperation with large pharmaceutical companies that are abundant in resources and have strong comprehensive strength, we will firmly grasp the cooperation opportunity with the National Vaccine and Serum Institute (北京生物製品所). While ensuring that three types of product including “Human Placenta Blood Albumin Injection (人胎盤血白蛋白注射劑)” can be transferred to the production base in Guizhou and commence production on schedule, we will closely cooperate with China National Biotech Group in vaccine production and plasma products and other aspects. At the same time, we will cooperate with various outstanding companies, with a view to implement mergers, acquisitions and reorganisations within the medicine and general healthcare industries, and cooperate to set up investment entities or funds, and to expand the source of projects, to make up any shortcoming in the Group’s business and to generate new sources of profit. We will grasp valuable opportunities from market adjustment and falling asset prices and increase investments and enhance cooperation so as to promote the perfection of the product line and production chain of the Group and to shape our core competitiveness.
8. According to the distinct characteristics of Hong Kong capital market, we will implement market capitalisation management under the guidance of the development strategy for general health. By scheduling regular meetings between management and investors, reporting the results and primary working status of the Group in a timely manner to enhance communication with investors, coupled with reorganising the Group’s strengths in strategy, product, competitiveness, growth, financial planning and costs and human resources, the mechanism of the Group’s value will be more complete and clearer, and will induce the capital market to form an accurate evaluation of the Group, thereby resulting in a stable growth of market value aligning with the Group’s development.
9. Effectively integrating internal human resources, we will set up excellent research and development, production and marketing teams for each of the traditional Chinese medicine, bio-pharmaceutical products and technology and healthcare products platforms. We will also place more efforts in recruiting high-calibre talents based on the

development needs of the Group's business, especially the development of hospital investment and management. At the same time, the professional skills of existing staff will be continuously promoted. In addition, we will optimise the incentive mechanism and motivate our staff's enthusiasm in business venture and create a more executable, innovative, advancing and accommodating enterprise culture.

10. Actively expanding the PRC market and enhancing our relationship with the government, we will proactively incorporate the Group's development into the overall domestic economic development layout and devote more contributions in increasing government fiscal income, solving unemployment problems and promoting the development of relevant industries; accelerate the development of biological products and technology to become the front-runner of the high-technology sector in the domestic economic industry. By virtue of government support, we will strengthen the integration of public hospitals with city as geographical unit and continue to strive for more investments and support from the respective government authorities for the development and technology re-engineering of the Group.

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

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 30 June 2014, the Group had unpledged cash and bank balances of approximately HK\$2,725.3 million (2013: approximately HK\$2,799.4 million). Its gearing ratio calculated as a ratio of total debt of bank borrowings and obligations under finance leases to equity attributable to owners of the Company was approximately 0.7% (2013: approximately 0.6%). Net current assets were approximately HK\$3,316.3 million (2013: approximately HK\$3,208.4 million) and the current ratio was approximately 9.5 (2013: approximately 10.4) as at 30 June 2014.

The finance costs of the Group for the Year amounted to approximately HK\$1.7 million (2013: approximately HK\$2.0 million), representing approximately 0.1% (2013: approximately 0.1%) of the Group's total turnover and there is no significant change in finance costs over the corresponding period in 2013.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liability (2013: Nil).

BANK BORROWINGS

As at 30 June 2014, the Group had outstanding bank loans of approximately HK\$38.0 million from the banks in the PRC (2013: approximately HK\$25.1 million), which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi.

As at 30 June 2014, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; and (ii) certain prepaid land lease payments and buildings of the Group.

SEASONAL OR CYCLICAL FACTORS

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

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group mainly generated revenue and incurred costs in Renminbi. The exchange rate for Renminbi did not fluctuate materially during the Year. 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 instrument for hedging purpose.

TREASURY POLICIES

During the Year, 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 by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

COMMITMENTS

In addition to the operating lease commitments, the Group had the following capital commitments at the end of the reporting period:

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Contracted, but not provided for:		
Property, plant and equipment	362,865	74,224
Prepaid land lease payment	62,990	–
Technical know-how	731	729
	<u>426,586</u>	<u>74,953</u>
Authorised, but not contracted for:		
Property, plant and equipment	235,278	838,607
	<u>661,864</u>	<u>913,560</u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Contracted, but not provided for	<u>3,247</u>	<u>—</u>

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2014, the Group had a total of 975 employees (2013: 954), of whom 966 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 Year, staff costs of the Group (including Directors' remunerations) amounted to approximately HK\$131.9 million (2013: approximately HK\$87.7 million). Staff costs of the Group accounted for 7.1% of the Group's turnover (2013: 5.0%) during the Year. The Group 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 Year.

FINAL DIVIDEND, SPECIAL DIVIDEND AND BONUS ISSUE

The Directors recommended the payment of a final dividend of HK3.6 cents per share of the Company ("**Share**") for the Year (2013: final dividend of HK2.3 cents per Share and special dividend of HK4.0 cents per Share) totalling approximately HK\$147,027,000, and a bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares held to the Shareholders whose Shares are on the register of members on Tuesday, 6 January 2015, subject to the approval of the Shareholders in the Company's forthcoming annual general meeting ("**Annual General Meeting**"), and if passed, the final dividend together with the share certificate of the bonus issue Shares will be paid and posted respectively on Friday, 23 January 2015.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming Annual General Meeting is scheduled on 19 December 2014. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 15 December 2014 to Friday, 19 December 2014, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 12 December 2014.

The proposed final dividend and the bonus issue of Shares are subject to the passing of ordinary resolutions by the Shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend and the bonus issue of Shares is Tuesday, 6 January 2015. For determining the entitlement to the proposed final dividend and the bonus issue of Shares, the register of members of the Company will be closed from Wednesday, 31 December 2014 to Tuesday, 6 January 2015, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the bonus issue of Shares, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, for registration not later than 4:30 p.m. on Tuesday, 30 December 2014. The payment of final dividend and the share certificates for the bonus Shares will be made and despatched on Friday, 23 January 2015.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) 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 (the “**Stock Exchange**”) throughout the Year.

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 code of conduct regarding securities transactions by Directors and senior management during the Year.

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 Year.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Committee**”) in accordance with the requirements of the CG Code. The primary duties of the Committee include reviewing and providing supervision over the financial reporting process and internal controls of the Group. The existing members of the Committee are Mr. Tarn Sien Hao, a non-executive Director, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming Matthew, the independent non-executive Directors. The Group's financial statements for the Year have been reviewed by the Committee, which is of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is available for viewing on the website of the Stock Exchange and the website of the Company at <http://www.huahanbp.com.hk>. The annual report of the Company will be despatched to the Shareholders in due course.

LIST OF DIRECTORS

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.

On behalf of the Board
Hua Han Bio-Pharmaceutical Holdings Limited
Zhang Peter Y.
Chairman

Hong Kong, 29 September 2014