

CHINAnimal HEALTHCARE

CHINA ANIMAL HEALTHCARE LTD.

Unaudited Financial Statement and Dividend Announcement for the First Quarter (3 months) Ended 31 March 2010 of China Animal Healthcare Ltd. (the “Company” or “CAH”) and its Subsidiaries (Collectively the “CAH Group”)

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		Change %
	Unaudited 3 Months Ended		
	31.3.10 RMB'000	31.3.09 RMB'000	
Revenue	115,246	75,394	52.9
Cost of sales	(28,358)	(19,770)	43.4
Gross profit	86,888	55,624	56.2
Other operating income	40	17	135.3
Selling and distribution expenses	(28,956)	(20,269)	42.9
Administrative expenses	(8,737)	(5,698)	53.3
Other operating expenses	-	(118)	(100.0)
Profit from operations	49,235	29,556	66.6
Finance income	1,558	244	538.5
Finance costs	(98)	(339)	(71.1)
Profit before income tax	50,695	29,461	72.1
Income tax	(13,300)	(3,194)	316.4
Profit for the period	37,395	26,267	42.4
Other comprehensive income	-	-	NM
Total comprehensive income for the period	37,395	26,267	
Attributable to:			
Equity holders of the Company	36,606	25,020	46.3
Minority interests	789	1,247	(36.7)
	37,395	26,267	

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

	Group		Change %
	Unaudited 3 Months Ended		
	31.3.10	31.3.09	
	RMB'000	RMB'000	
Staff costs	18,793	12,215	53.9
Travelling expenses	11,727	8,580	36.7
Directors' fees	237	218	8.7
Depreciation of property, plant and equipment	1,172	1,257	(6.8)
Plant and equipment written off	853	-	NM
Amortisation of land use rights	62	62	-
Amortisation of technology rights	750	750	-
Rental - operating leases	1,678	1,716	(2.2)
Interest expense	53	296	(82.1)
Interest income	(1,558)	(244)	538.5

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group As at		Company As at	
	31.3.10 RMB'000	31.12.09 RMB'000	31.3.10 RMB'000	31.12.09 RMB'000
ASSETS				
Non-current assets				
Investment in subsidiary	-	-	1,111,688	1,110,763
Property, plant and equipment	55,587	56,451	-	-
Land use rights	11,223	11,285	-	-
Intangibles	11,191	11,941	-	-
Other investment	1,125	-	-	-
	<u>79,126</u>	<u>79,677</u>	<u>1,111,688</u>	<u>1,110,763</u>
Current assets				
Inventories	12,221	8,042	-	-
Trade receivables	14,196	20,695	-	-
Other current assets	468,500	265,758	29	-
Cash and cash equivalents	292,510	451,245	31,451	57,590
	<u>787,427</u>	<u>745,740</u>	<u>31,480</u>	<u>57,590</u>
Total assets	<u>866,553</u>	<u>825,417</u>	<u>1,143,168</u>	<u>1,168,353</u>
EQUITIES AND LIABILITIES				
Equity attributable to equity holders of the Company				
Share capital	76,192	76,192	144,244	144,244
Reserves	710,978	674,372	996,014	997,300
	<u>787,170</u>	<u>750,564</u>	<u>1,140,258</u>	<u>1,141,544</u>
Minority interests	21,911	21,122	-	-
	<u>809,081</u>	<u>771,686</u>	<u>1,140,258</u>	<u>1,141,544</u>
Current liabilities				
Trade payables	9,387	4,249	-	-
Other payables	22,372	14,679	2,910	3,597
Borrowings	13,000	27,712	-	23,212
Provision for income tax	12,713	7,091	-	-
	<u>57,472</u>	<u>53,731</u>	<u>2,910</u>	<u>26,809</u>
Total liabilities	<u>57,472</u>	<u>53,731</u>	<u>2,910</u>	<u>26,809</u>
Total equity and liabilities	<u>866,553</u>	<u>825,417</u>	<u>1,143,168</u>	<u>1,168,353</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

	Group			
	As at 31 March 2010		As at 31 December 2009	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Amount repayable in one year or less, or on demand	13,000	-	4,500	23,212
Amount repayable after one year	-	-	-	-
Total	13,000	-	4,500	23,212

Details of any collateral

The loan from Shenzhou Chengguan Rural Credit Cooperative amounting to RMB5.0 million is secured by a property held by a related party.

The loan of RMB8.0 million is part of the RMB50.0 million banking facilities granted collectively by HSBC Bank (China) Company Limited to our subsidiary, Shenzhou Pagina-kang Technology Co., Ltd. ("Pagina-kang") and investee company, Inner Mongolia Biwei Antai Biological Technology Co., Ltd. ("Biwei Antai"). The banking facilities are secured on the following:

1. Security over deposit of SGD5.0 million to be placed by the Company with HSBC Singapore Office.
2. A corporate guarantee of USD8.0 million from the Company to Pagina-kang.
3. A corporate guarantee of RMB50.0 million from Pagina-kang to Biwei Antai.
4. A personal guarantee of RMB50.0 million from Wang Yangang, Chairman of the Company to Biwei Antai.

- 1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Unaudited 3 Months Ended	
	31.3.10	31.3.09
	RMB'000	RMB'000
Cash Flows from Operating Activities		
Profit before income tax	50,695	29,461
Adjustments for:		
Depreciation of property, plant and equipment	1,172	1,257
Plant and equipment written off	853	-
Amortisation of land use rights	62	62
Amortisation of technology rights	750	750
Exchange loss on revaluation of bank term loan	-	56
Interest income	(1,558)	(244)
Interest expense	53	296
Operating cash flow before movements in working capital	<u>52,027</u>	<u>31,638</u>
Changes in working capital:		
Inventories	(4,179)	(776)
Trade and other receivables	3,786	(12,601)
Trade and other payables	12,481	703
Cash generated from operating activities	<u>64,115</u>	<u>18,964</u>
Interest received	1,529	244
Interest paid	(53)	(24)
Income tax paid	(7,328)	(3,669)
Net cash from operating activities	<u>58,263</u>	<u>15,515</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(1,161)	(501)
Consideration for proposed acquisitions	(200,000)	-
Other investment	(1,125)	-
Net cash used in investing activities	<u>(202,286)</u>	<u>(501)</u>
Cash Flows from Financing Activities		
Bank deposit pledged	(24,389)	-
Repayment of borrowings	(27,712)	-
Proceeds from borrowings	13,000	4,500
Net cash from financing activities	<u>(39,101)</u>	<u>4,500</u>
Net increase in cash and cash equivalents	(183,124)	19,514
Cash and cash equivalents at the beginning of the period	<u>451,245</u>	<u>275,837</u>
Cash and cash equivalents at the end of the period	<u><u>268,121</u></u>	<u><u>295,351</u></u>

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	Group	
	As at 31 March	
	2010	2009
	RMB'000	RMB'000
Short-term deposit	24,389	-
Cash and bank balances	268,121	295,351
Cash and cash equivalents	292,510	295,351
Less: bank deposit pledged	(24,389)	-
Cash and cash equivalents per cash flow statement	268,121	295,351

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Attributable to equity holders of the Company						Total
	Share capital	Share premium	Merger reserve	Reserve fund	Retained earnings	Minority interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010	76,192	259,065	(26,358)	42,511	399,154	21,122	771,686
Total comprehensive income for the period	-	-	-	-	36,606	789	37,395
Balance at 31 March 2010	76,192	259,065	(26,358)	42,511	435,760	21,911	809,081
Balance at 1 January 2009	54,175	96,646	(26,358)	30,453	282,102	15,191	452,209
Total comprehensive income for the period	-	-	-	-	25,020	1,247	26,267
Balance at 31 March 2009	54,175	96,646	(26,358)	30,453	307,122	16,438	478,476

Company	Share capital	Share premium	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010		144,244	1,011,006	(13,706)
Comprehensive loss for the period		-	-	(1,286)
Balance at 31 March 2010		144,244	1,011,006	(14,992)
Balance at 1 January 2009		122,227	848,587	(8,464)
Comprehensive loss for the period		-	-	(933)
Balance at 31 March 2009		122,227	848,587	(9,397)

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Not applicable.

(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	31.3.2010	31.12.2009
Total number of shares issued at end of period/year	<u>1,558,390,625</u>	<u>1,558,390,625</u>

(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

Except for the comparative balance sheets of the Group and of the Company as at 31 December 2009, the financial statements presented above have not been audited or reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group and the Company have adopted the same accounting policies and methods of computation in the financial statements for the current period as those applied in their audited financial statements for the year ended 31 December 2009.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Nil.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Group	
	3 months ended 31 March	
	2010	2009
Net profit after tax attributable to equity holders of the Company	36,606	25,020
a) Based on weighted average number of shares (RMB cents/share)	2.35	1.91
b) Based on fully diluted basis (RMB cents/share)	2.35	1.91
Weighted average number of shares applicable to basic earnings per share ('000)	1,558,391	1,308,391
Weighted average number of shares based on fully diluted basis ('000)	1,558,391	1,308,391

Basic earnings per share is calculated based on the weighted average number of shares issued during the financial period under review. There were no potential dilutive options for both periods.

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	31.3.10	31.12.09	31.3.10	31.12.09
Net asset value per ordinary share based on issued share capital as at the end of the period/year (RMB cents/share)	50.51	48.16	73.17	73.25

Net asset value for the Group and Company as at 31 March 2010 and 31 December 2009 is computed based on 1,558,390,625 shares in issue at the end of the financial period/year.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
 (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Income Statement Review

A breakdown of the Group's revenue by business activities for 1Q2010 and 1Q2009 is set out below.

Revenue	1Q2010		1Q2009	
	RMB'000	%	RMB'000	%
Powdered form drugs	94,204	81.7	54,909	72.8
Injection form drugs	8,953	7.8	6,456	8.6
Biological drugs	12,089	10.5	14,029	18.6
Total	115,246	100.0	75,394	100.0

Echoing the strong year-on-year growth recorded in the previous quarter, the Group posted another strong quarterly performance in 1Q2010 with aggregate revenue of RMB115.2 million, representing a staggering 52.9% increase over 1Q2009. The increase in revenue was mainly boosted by the 71.6% surge in sales of powdered form drugs from RMB54.9 million in 1Q2009 to RMB94.2 million in 1Q2010. Although representing a 11.9% drop compared to the RMB106.9 million worth of powdered drug sales in 4Q2009, the decrease will not be inconceivable taking into account the substantially fewer number of business days and transactions in the current quarter as a result of the Chinese Lunar New Year festivities, when the PRC farmers typically take an extended break from breeding activities.

The strong demand for powdered drugs in 1Q2010 is undoubtedly credited to the buoyant poultry farming sector. Steadily improving market conditions for domestic producers that began in late 2009 have continued into 2010. Poultry meat distributors are reporting particularly strong demand from restaurants and food outlets, in particular factory canteens and low-end eateries. A key driver has been the return of migrant workers to manufacturing positions. These workers are an important market segment as chicken meat is their primary protein source, due to relative affordability compared to pork, beef and mutton. While poultry meat prices have risen in 2010, they have remained well below prices for pork and other substitute meats. A big percentage of the migrant workers who became jobless during the global economic downturn have since returned to their jobs. The absence of bird flu through this quarter is also supporting stronger consumption over last year. Following the bird flu scare in December 2008 and several suspected bird flu related human fatalities in January and February 2009, poultry sales were dampened as many Chinese consumers cut back on poultry meat purchases due to food safety concerns. Such adversities from the bird flu scare in December 2008 and also the transitory bank credit shrinkage plaguing the large scale poultry farms then have resulted in comparatively lower powdered drug sales in 1Q2009.

Furthermore on 13 February 2010, China began imposing duties on US broilers as a result of its preliminary anti-dumping investigation of US poultry. Such anti-dumping duties led to a reduction in China's direct imports of poultry from the United States and therefore raising sales of domestic poultry products, further fuelling an increase in domestic poultry breeding activities which led to an increase in demand and usage of powdered form drugs.

Similarly, the injection form drugs segment also posted an impressive 38.7% growth in the current quarter. Sale of injection form drug increased by RMB2.5 million to RMB9.0 million in 1Q2010. Falling pork prices in the first half of 2009 has taken a toll on hog breeding activities and caused a number of breeders to scale down or terminate their breeding operations. The situation for China's hog farmers however has improved considerably through the second half of 2009 as increased demand and government action saw pork prices rebound rapidly. The upward trend has continued into the first quarter of 2010 in the run up to Chinese Lunar New Year. Higher prices of pork have spurred strong growth in hog breeding activities and pork production in 1Q2010 and hence leading to the increase in demand for the Group's injection form drug products. Biological drug sales however recorded a decrease of RMB1.9 million or 13.8% in the current quarter compared to 1Q2009. The decrease was mainly attributed to timing differences relating to the delivery of swine fever vaccines to the provincial veterinary stations. Biological drug sales in the month of March 2009 comprised mainly swine fever vaccine sales and amounted to RMB7.3 million, constituting 52.1% of aggregate biological drug sales in 1Q2009. Delivery of swine fever vaccines in March 2010 alone however was comparatively lower at RMB3.9 million. Total sale of swine fever vaccines to provincial veterinary stations in the current quarter accounted for RMB5.6 million in revenue.

Cost of sales of the Group constituted approximately 24.6% and 26.2% of its revenue in 1Q2010 and 1Q2009, respectively. In line with the increase in turnover, cost of sales increased by RMB8.6 million or 43.4% from RMB19.8 million in 1Q2009 to RMB28.4 million in 1Q2010. Overall gross profit margin increased by 1.6 percentage point from 73.8% in 1Q2009 to 75.4% in 1Q2010, due mainly to the increase in the proportion of powdered form drugs from 72.8% in 1Q2009 to 81.7% in 1Q2010. Gross profit margin for the powdered form drugs segment is comparatively higher compared to the injection form drugs and biological drugs segments. Average selling prices and prices of raw materials have not fluctuated significantly in 1Q2010. Accordingly, the gross profit margin for powdered form drugs in the current quarter of 77.4% (1Q2009: 76.8%) remained comparable to the 77.8% achieved in FY2009. Gross profit margin for injection form drug sales improved to 61.5% (1Q2009: 56.0%) as a result of a higher proportion of sales made on the higher end injection form drug products. As for biological drugs sales, gross profit margin has remained relatively stable at 70.1% (1Q2009: 70.0%).

Selling and distribution expenses increased by RMB8.7 million or 42.9% from RMB20.3 million in 1Q2009 to RMB29.0 million in 1Q2010 due mainly to the increase in payroll expenses and travelling expenses of approximately RMB5.8 million and RMB3.0 million respectively, partially offset by a decrease in marketing and promotion expenses of RMB0.2 million. Payroll expenses increased from RMB10.3 million in 1Q2009 to RMB16.1 million in 1Q2010 due mainly to higher sales commission paid out in line with the 52.9% increase in sales. Similarly, travelling expenses increased from RMB8.4 million in 1Q2009 to RMB11.4 million in 1Q2010 with increased travelling made by the expanding sales and marketing team.

Administrative expenses increased by RMB3.0 million or 53.3% from RMB5.7 million in 1Q2009 to RMB8.7 million in 1Q2010 due mainly to the increase in payroll expenses, office expenses, professional fees and other miscellaneous expenses of RMB0.7 million, RMB0.6 million, RMB0.2 million and RMB0.6 million, respectively. In addition, the Group wrote off plant and equipment comprising mainly motor vehicles amounting to RMB0.9 million during the period.

Finance costs decreased by RMB0.2 million due mainly to the early repayment of the outstanding loan of USD3.4 million in January 2010. The increase in interest income of RMB1.3 million was due mainly to higher average bank balances and the interest income derived on the loan of RMB70.0 million made to the investee company, Biwei Antai.

Pursuant to the Restructuring Exercise in FY2005, based on the Income Tax Law, the PRC subsidiaries, with the exception of Shanxi Longkeer are entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years. Accordingly, these PRC subsidiaries have either elected FY2005 or FY2006 as the first profitable year for the purposes of determining the tax holiday period and they are subject to tax at 12.5% and 25% in 2010 (1Q2009: 12.5%). In addition, the Group has provided for withholding tax of 5% on the portion of distributable profits derived by the PRC subsidiaries in 1Q2010 that is expected to be distributed out as dividend.

As a result of the foregoing, net profit for the period attributable to equity holders of the Company increased by RMB11.6 million or 46.3% from RMB25.0 million in 1Q2009 to RMB36.6 million in 1Q2010. Net profit attributable to minority interests amounted to RMB0.8 million in 1Q2010.

Balance Sheet Review

Non-current assets amounted to approximately RMB79.1 million as at 31 March 2010 and comprised property, plant and equipment ("PPE") of RMB55.6 million, land use rights of RMB11.2 million, intangibles of RMB11.2 million and other investment of RMB1.1 million.

The decrease of approximately RMB0.9 million in PPE during 1Q2010 was mainly attributed to the write-off of motor vehicles amounting to RMB0.9 million. PPE additions during the period amounted to RMB1.2 million, comprising mainly improvements to buildings and plant and machinery, offset by depreciation charge of RMB1.2 million. Land use rights amounted to RMB11.2 million as at 31 March 2010 after amortisation charge of RMB0.1 million in 1Q2010. These land use rights have a remaining useful life of approximately 45 years as at 31 March 2010.

Intangibles amounting to RMB11.2 million as at 31 March 2010 comprised production technology rights of RMB8.8 million and goodwill on acquisition of subsidiary of RMB2.4 million. The production technology rights pertain to the production of biological animal drugs and are amortised over their estimated useful life of 5 years. Total amortisation expense on the production technology rights for the period amounted to RMB0.8 million. These production technology rights have a remaining useful life of approximately 3 years as at end 1Q2010. Goodwill on acquisition of subsidiary represents the excess of the purchase consideration for Shanxi Longkeer of RMB30.0 million over the fair value of the net assets acquired. No impairment loss on the recognised goodwill is required as at 31 March 2010. During the period, the Group invested RMB1.1 million towards the paid-in capital of Jilin Kangda Rabbit Industry Co., Ltd. ("Jilin Kangda"), a start-up company in the business of rabbits breeding, for a 11.25% stake in the company. The key objective of this business collaboration is to secure an assured supply of rabbits for the Group at competitive prices going forward. Certain animal vaccines of the Group are produced through the lapinization of rabbits.

Current assets of RMB787.4 million as at 31 March 2010 comprised inventories, trade receivables, other current assets and cash and cash equivalents. Trade receivables amounted to RMB14.2 million as at 31 March 2010, representing a decrease of RMB6.5 million over end of FY2009. This is mainly attributed to the collection of outstanding trade debts during the period pertaining to past powder drug sales made to the poultry corporations. Trade receivables of Shanxi Longkeer amounted to approximately RMB5.9 million and relates mainly to swine fever vaccine sales to the provincial veterinary stations in 1Q2010 amounting to approximately RMB5.6 million. Other current assets amounted to RMB468.5 million as at 31 March 2010, representing an increase of RMB202.7 million compared to RMB265.8 million of other current assets as at 31 December 2009. The increase is mainly attributed to the additional payment of RMB95.0 million during the period as the Group exercised the call option to purchase an additional 20% stake in Biwei Antai. In addition, the Group has disbursed RMB105.0 million, representing 50% of the acquisition consideration in connection with the acquisition of Jianxiang Hemu. All considerations paid by the Group to-date pertaining to the abovementioned acquisitions of RMB393.0 million have been accounted for as other receivables until all conditions stipulated in the respective sale and purchase agreements are

met and the acquisitions deemed completed. The registration of change of shareholders in both Biwei Antai and Jianxiang Hemu has been lodged with the relevant authorities. Such registration, although procedural in nature should typically take two to three weeks to be effected. Consolidation of the results of these new subsidiary companies is therefore expected to commence in 2Q2010. Other current assets also include a shareholder's loan of RMB70.0 million disbursed to Biwei Antai in the second half of FY2009. Inventories increased from RMB8.0 million as at 31 December 2009 to RMB12.2 million as at 31 March 2010 due mainly to the stocking up of raw materials during the period.

Cash and cash equivalents, excluding pledged deposit of RMB24.4 million amounted to approximately RMB268.1 million as at 31 March 2010, representing a decrease of RMB183.1 million since 31 December 2009. Approximately RMB58.3 million was generated from the Group's operating activities, offset by outflows in investing and financing activities of RMB202.3 million and RMB39.1 million, respectively. Net cash used in investing activities is mainly attributed to the additional payments of RMB200.0 million made during the period according to the terms in the sale and purchase agreements for the acquisition of Biwei Antai and Jianxiang Hemu. In addition, total PPE purchases in 1Q2010 amounted to RMB1.2 million and the Group further invested RMB1.1 million in the paid-in capital of Jilin Kangda. In January 2010, the Group repaid its USD term loan of RMB23.2 million as well the RMB4.5 million loan from the Shenzhou Chengguan Rural Credit Cooperative. During the period, the Group drew down a new working capital loan of RMB8.0 million from HSBC Bank (China) Company Limited. This is part of the RMB50.0 million working capital line availed collectively to Pagina-kang and Biwei Antai. The Company provided a pledged deposit of RMB24.4 million on these banking facilities. In addition, for business relations purposes, the Group also subsequently drew down a short-term working capital loan of RMB5.0 million from the Cooperative.

Current liabilities comprised primarily trade and other payables, borrowings and income tax liabilities. Current liabilities as at 31 March 2010 amounted to RMB57.5 million.

Trade payables increased by RMB5.1 million to RMB9.4 million as at 31 March 2010 due mainly to purchases of raw materials in 1Q2010. Other payables of RMB22.4 million comprised mainly accrued salaries and commission of RMB5.3 million, VAT payable of RMB6.5 million and a non-trade amount due to Biwei Antai of RMB4.6 million. Other constituents in other payables comprise accrued operating expenses, sundry creditor balances and other taxes payable, including the RMB3.7 million cumulative accruals for PRC withholding tax on expected dividends out of the profits derived by the PRC subsidiaries.

Income tax liabilities amounted to approximately RMB12.7 million as at 31 March 2010 and relate mainly to the corporate tax payable by the PRC subsidiaries on the taxable profits for 1Q2010.

The Group's total equity comprised share capital, share premium, retained earnings, other reserves and minority interests. Total equity as at 1 January 2010 amounted to approximately RMB771.7 million. Net profit attributable to equity holders of the Company and minority shareholders of Shanxi Longkeer for the period amounted to RMB36.6 million and RMB0.8 million, respectively. Consequently, total equity increased to RMB809.1 million as at 31 March 2010, of which RMB787.2 million is attributable to equity holders of the Company.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

No forecast or prospect statement had been previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group's operations have continued to benefit from the broadening economic recovery in China. The PRC Government's judiciousness to depart from the over reliance on exports and to stimulate its nascent but budding consumer economy has reaped exemplary results. The country's astonishing growth has granted unprecedented opportunities and profit potential to companies with a strong connection to the domestic consumption market. Steadily improving market conditions for domestic producers in the buoyant poultry farming sector has propelled the Group to a 71.6% year-on-year surge in powdered form drugs sales in the current quarter. This positive growth trend of China's juggernaut economy is widely expected to continue in 2010 and may turn out to be the additive to fuel an unplanned boost to the Group's organic business in addition to the projected contribution from its recent acquisitions.

On a separate front, an outbreak of animal HFM disease resulting in the culling over 8,000 pigs was reported in the southern China's Guangdong Province in March 2010. Whilst the disease is now under control with no further outbreaks reported, the frequent emergence of such epidemics will result in short term increase in demand for animal vaccines and also in the long run as the animal farmers and the Chinese government are constantly reminded on the importance of preventive animal drugs.

With the production of the vaccines for Porcine Reproductive and Respiratory Syndrome ("PRRS") Virus underway and sale of these vaccines expected to commence in the ensuing quarter, the Group is currently focusing its efforts to deliver its third compulsory animal vaccine to the market. Biwei Antai has obtained the production licence for the animal hand-foot-and-mouth disease ("HFMD") vaccine from the Ministry of Agriculture ("MOA") in March 2010. It has also completed its first batch production of the HFMD vaccine and submitted its products to MOA for evaluation. Based on the current progress, the Group is on schedule to obtain the required product code for the commencement of sale of the vaccines around the middle of 2010. Accordingly, the Group will be able to participate in the tender for the animal HFMD vaccine sales orders during the next official compulsory vaccine sales bidding exercise commencing in August 2010. In the near concluded official compulsory vaccines sales bidding exercise which commenced in February 2010, the Group has to-date indicative orders for its swine fever vaccines and PRRS vaccines of approximately RMB30 million and RMB50 million respectively, and when these orders are secured, they are expected to be delivered in the next six to twelve months.

Apart from consolidating its stronghold in the powdered form animal drugs space, the successful integration and execution of the newly acquired entities and their businesses will continue to be the Group's primary focus in the near term. Nevertheless, management will monitor closely the developments in the regulations and policies governing the animal husbandry sector and capitalise on any favourable business and licensing opportunities within the industry. The directors of the Company remain optimistic on the Group's operations and in particular, the prospects of the expanding vaccine segment can contribute to the Group. Barring unforeseen circumstances, the Group's operations should remain profitable with sustained growth.

11. Dividend

(a) Current Financial Period Reported On

Interim dividend

In relation to the first quarter ended 31 March 2010, the Directors have declared an interim tax exempt dividend of 2.0 RMB cents per share.

(b) Corresponding Period of the Immediately Preceding Financial Year

The Company did not declare or pay any dividend for the financial period ended 31 March 2009.

(c) Date payable

Payment of the dividend will be made on 30 June 2010.

(d) Books closure date

Notice is hereby given that the Register of Members and the Share Transfer Books of the Company will be closed on 10 June 2010 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's Share Transfer Agent, M & C Services Private Limited, 138 Robinson Road, #17-00, The Corporate Office, Singapore 068906 up to 5:00 p.m. on 9 June 2010 will be registered to determine shareholders' entitlements to the said dividend.

Members whose Securities Accounts with the Central Depository (Pte) Limited are credited with shares at 5:00 p.m. on 9 June 2010 will be entitled to the dividend.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

**13. NEGATIVE ASSURANCE CONFIRMATION ON INTERIM FINANCIAL RESULTS
PURSUANT TO RULE 705(5) OF THE LISTING MANUAL**

We, the undersigned, hereby confirm to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited interim financial results for the first quarter ended 31 March 2010 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Wang Yangang
Executive Chairman & CEO

Sun Jin Guo
Deputy CEO

BY ORDER OF THE BOARD

Wang Yangang
Executive Chairman & CEO
6 May 2010