



2010 INTERIM REPORT



盈天醫藥集團有限公司
WINTEAM PHARMACEUTICAL GROUP LIMITED

(Stock code: 00570)



盈天医药
WINTEAM

UPGRADING
提升

DEVELOPMENT
發展

CONSOLIDATION
整合



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CORPORATE INFORMATION

Board of Directors	<p><i>Non-executive Director</i> DU Richeng (<i>Chairman</i>)</p> <p><i>Executive Directors</i> XU Tiefeng (<i>Executive Deputy Chairman</i>) YANG Bin (<i>Managing Director</i>) SITU Min (<i>Chief Financial Officer</i>) LI Songquan (<i>Deputy Managing Director</i>)</p> <p><i>Independent Non-executive Directors</i> LO Wing Yat PANG Fu Keung WANG Bo ZHANG Jianhui</p>
Company Secretary	HUEN Po Wah
Audit Committee	PANG Fu Keung (<i>Chairman</i>) LO Wing Yat WANG Bo ZHANG Jianhui
Remuneration Committee	LO Wing Yat (<i>Chairman</i>) DU Richeng PANG Fu Keung WANG Bo ZHANG Jianhui
Registered Office	Rooms 2801-2805, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Auditors	KPMG Certified Public Accountants Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shop 1712-16, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited The Hongkong & Shanghai Banking Corporation Limited China Construction Bank (Asia) Corporation Limited
Stock Code	00570
Website	http://www.winteamgroup.com

Management Discussion and Analysis



MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The board of directors (“Directors” or the “Board”) of Winteam Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) prepared under Hong Kong Financial Reporting Standards for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009 and the relevant explanatory notes. The consolidated results are unaudited, but have been reviewed by the Company’s independent auditors, KPMG, and the audit committee of the Company.

BUSINESS PERFORMANCE

For the six months ended 30 June 2010, the Group recorded an increase in turnover of approximately 37.8% to approximately HK\$437.80 million and operating profit increased by approximately 11.7% to approximately HK\$66.05 million, as compared with the corresponding period of last year. Profit attributable to equity shareholders of the Company amounted to approximately HK\$29.05 million, representing a slight decrease of approximately 0.7%. Basic earnings per share were approximately HK1.74 cents, a decrease of approximately 12.6% from the corresponding period of last year. As the Group requires sufficient cash to continue its business expansion and fund the investment to upgrade the production capacity, the Board did not recommend payment of an interim dividend for the six months ended 30 June 2010.

BUSINESS REVIEW

The year 2010 was the first year for the Group’s three-year strategic development. The Group grasped the development opportunities brought by the national medical reform to enterprises, enhanced the integration of resources, raised our staff’s competitive awareness and improved the Group’s management and R&D for new medicine, through which the Group’s production and operation have reached a new platform in all aspects.

The year 2010 was also a critical turning point of the reform of medical and healthcare system in the PRC (“New Medical Reform”). The continuous introduction and implementation of supporting policies under the New Medical Reform gave new impetus to the pharmaceutical industry along with new challenges.

It is the target set by the State Council to achieve implementation of the national basic medical insurance system by at least 60% of the community health services organizations and general medical institutions under county level by the end of 2010. In order to strive for achieving this target, the implementation plans for basic medical insurance system were introduced in provinces one after the other during the first half of 2010. With further promotion of the basic medical insurance system, there is increased usage of the Group’s key products and exclusive products listed on the List of Essential Drugs 2009 such as Yupingfeng Granule and Biyankang Tablet by general medical institutions.

In July 2010, 7 ministries and commissions including the Ministry of Health jointly issued the “Regulations on Centralized Drug Purchasing for Medical Institutions”, which regulated the methods and principles for centralized medicine purchasing. These measures affirmed the principle of “Quality First and Reasonable Pricing”, which brought new opportunities for enterprises which emphasise on quality of medicine and are granted with relevant certificates.

MANAGEMENT DISCUSSION AND ANALYSIS

On the other hand, the National Development and Reform Commission is conducting a nationwide price investigation for medicine, the scope of which includes cost investigation and ex-factory price investigation, with an aim to enhancing the price management of medicine. It is expected that “Drug Price Control Measures” will be launched by the National Development and Reform Commission during the second half of the year to adjust the price of the medicines listed on the List of Essential Drugs and those newly listed on the National Medical Insurance and Work Injury Insurance Medicine List (the “Medical Insurance List”) as well as those medicines not subject to unified pricing. The risk and actual impact coming with the implementation of such policy are still uncertain. Currently, the winning bid price of the centralized purchasing for the Group’s key products in many provinces throughout the country is relatively stable.

During the period, in response to the policies on medical reform and the changing market, the Group allocated more resources in marketing activities to promote the product image and brand image as well as extended its sales network and channels with diversified marketing models, which allowed its products to gain access to more hospitals and the retail market. The Group consolidated the market position of and achieved satisfactory growth in sales for its core products within the highly competitive, ever-changing pharmaceuticals market. As more resources were used in marketing activities and the expansion of the sales network, the selling and distribution costs of the Group increased significantly by approximately 141.0% to approximately HK\$148.27 million for the period.

Sales of Products

In accordance with the Group’s product portfolio plan, the Group focused on the medicines which have substantial market and enjoy advantages from state policies such as respiratory system medicines, cardio-cerebral medicines, allergy medicines, anti-infective medicines and oncology medicines. The Group’s five major core products are Biyankang Tablet, VC Yinqiao Tablet, Sheng Tong Ping, Yupingfeng Granule and Gaode.

During the period, the turnover of the Group was approximately HK\$437.80 million, representing an increase of 37.8% from approximately HK\$317.70 million for the corresponding period of last year. The sales amount of the five major core products was approximately HK\$238.27 million, representing an increase of approximately 47.4% from HK\$161.62 million for the corresponding period of last year, accounting for approximately 54.4% of the total turnover of the Group.

Biyankang Tablet – a combined drug of Chinese and Western medicine (Chlorpheniramine maleate) with strengthened effect by mainly addressing both symptoms and root causes. It is used in treating acute and chronic as well as allergic rhinitis. Biyankang Tablet is produced by Foshan Dezhong Pharmaceutical Co., Ltd. (“Dezhong”) and is also an exclusive product included in the Chinese patent medicine category of the National List of Essential Drugs 2009 and an exclusive medicine listed on Medical Insurance List.

During the period, sales of the Biyankang Tablet amounted to approximately HK\$99.20 million, representing an increase of 68.4% from HK\$58.90 million for the corresponding period of last year, accounting for 22.7% of the total revenue of the Group. It was the best selling product of the Group.

The major reasons for the significant increase in the sales of Biyankang Tablet were attributable to a number of factors. The Group allocated more resources during the period and strategically placed commercials on various TV stations in phases to promote this product. At the same time, the promotion in retail drugstores and the considerable inventory taken by the large chain drugstores also contributed to the effective enhancement in the popularity and coverage of Biyankang Tablet, which in turn resulted in satisfactory OTC sales result. The sales growth of Biyankang Tablet was also benefited from the growth in prescription sales in hospitals after it was included in the National List of Essential Drugs as well as its outstanding price maintenance measures.

VC Yinqiao Tablet – a combined drug of Chinese and Western medicine. It comprises three western medicines, namely vitamin C, acetaminophen and chlorpheniramine maleate, which are added to the “Yinqiaosan” prescription contained in the “Wenbingtiaobian” compiled by Wu Tang, a famous doctor in Qing Dynasty, which in turn creates a synergy effect. It could be used for anti-inflammatory disease, anti-viral disease, expectorating and relieving cough. It is one of the best Chinese patent medicines used to treat fever, headache, coughing, thirst and sore throat caused by influenza. VC Yinqiao Tablet is included in the Catalogue of Drugs for Basic National Medical Insurance and list of the “Products of Prime Quality and Competitive Pricing”.

During the period, sales of VC Yinqiao Tablet amounted to approximately HK\$16.82 million, representing an increase of approximately 6.4% from HK\$15.82 million for the corresponding period of last year, accounting for approximately 3.8% of the total revenue of the Group.

The VC Yinqiao Tablet was produced by Dezhong and its quality standard will be included in the new edition of the Chinese Pharmacopeia as the quality benchmark for products in the same category. The Group intends to build VC Yinqiao Tablet as a leading brand of products in the same category.

Sheng Tong Ping (Nifedipine Sustained-release Tablet) – a chemical drug, used to sooth high blood pressure and cardiac neuralgia. It is a leading brand of similar products in the PRC, and a model of controlled and sustained release preparation produced in Guangdong.

During the period, sales of Sheng Tong Ping amounted to approximately HK\$48.61 million, representing an increase of approximately 22.7% from HK\$39.62 million for the corresponding period of last year, accounting for approximately 11.1% of the total revenue of the Group.

For Sheng Tong Ping, the Group adhered to an academic marketing strategy by inviting authoritative medical experts for long-term cooperation and through organizing academic forums and seminars on hypertension to build up the image and recognition of the brand name and product of Sheng Tong Ping in the professional field. The Group’s professional marketing team has established long-term cooperating relationship with pharmaceuticals distributors and hospitals throughout the country, which gave rise to the rapid growth of the prescription sale of Sheng Tong Ping in major hospitals within the country. In addition, since March 2008, the Group implemented the “Step by Step Penetration Program” (the “Program”) on a comprehensive scale to expand its tertiary end-user market. The Program was first launched in Guangdong and gradually penetrate to other provinces throughout the country with sales network covering the more affluent regions such as Zhejiang, Jiangsu, Shanghai and Beijing as well as rural areas. Currently, the Program has a coverage of 22 provinces, which has effectively facilitated the OTC retail sales of Sheng Tong Ping.

Yupingfeng Granule – the Chinese medicine granules used to strengthen the immunity system. Yupingfeng is one of the National Protected Traditional Chinese Medicine Products, a Reserve Medicine for Pandemics of the PRC and an exclusive product included in the Chinese Patent Medicine category of the National List of Essential Drugs 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period, sales of Yupingfeng Granule amounted to approximately HK\$30.26 million, representing an increase of approximately 133.7% from HK\$12.95 million for the corresponding period of last year, accounting for approximately 6.9% of the total revenue of the Group.

The Group has taken advantage of the new progress in immunology in recent years and positioned Yupingfeng Granule as an “Immunomodulator of Chinese Medicine”. Through rigorous academic promotion and seminars held in major hospitals and departments, the Group promoted the “ Bidirectional Immunoregulation” pharmacological effect of Yupingfeng Granule from the view of EBM, thus opening a new frontier for the marketing of Yupingfeng Granule. In the meantime, given the progressive implementation of national medicine system, the number of medical institutions in rural areas and clinics in urban areas purchasing Yupingfeng Granule has been increasing, creating a momentum for the growth of prescription sales. Driven by the demand from medical institutions and as a result of the effective implementation of national OTC promotional plan for core products, Yupingfeng Granule also achieved satisfactory growth in the OTC retail market.

Gaode (Cefodizime Sodium for injection) – a chemical drug used as antibiotics, and mainly used for infection caused by allergic bacteria such as lower and upper urinary infection, lower respiratory tract infection and gonorrhoea. Currently, it has the largest market share in the Cefodizime Sodium type of antibiotics in the PRC.

During the period, sales of Gaode amounted to approximately HK\$43.39 million, representing an increase of approximately 26.4% from HK\$34.34 million for the corresponding period of last year, accounting for approximately 9.9% of the total revenue of the Group.

As more provinces included Gaode in the Provincial Medical Insurance List and the Essential Medicine List for new type of rural cooperative medical care system, the sales coverage of Gaode has been extended. Besides, with further refinement of the original sales distribution model, the distribution system has been expanded into prefecture-level and county-level cities, thus increasing the market coverage of Gaode.

Cost Control

During the period, despite the increased prices of raw materials and packaging materials as well as higher fuel cost, the gross profit of the Group increased by approximately 63.6% to approximately HK\$240.72 million. The profit margin also increased by 8.7 percentage points to approximately 55.0% from 46.3% for the corresponding period of last year.

The Group strictly tightened its cost control measures during the period, which mainly included the screening of suppliers to ensure all purchases were in good quality with low price as well as the materials were in ample supply; optimizing the internal production process to improve products quality and production efficiency; and reintroducing the floating wage system as well as the rewards and punishment scheme for employees. Moreover, the acquisition of Foshan Nanhai Pharmaceutical Group Medicinal Material Co. Ltd. (“Nanhai Pharmaceutical”) by the Group last year as the procurement platform of its subsidiaries has also effectively lowered the Group’s procurement costs. Through reasonable resources allocation, the Group improved its operating efficiency with lower operating cost, which in turn raised the overall profit margin.

Integration of Resources

During the period, the Group's integration of resources progressed smoothly. The integration in respect of marketing, human resources and R&D has been basically completed. The marketing centre integrated the Group's brandname resources, product structure and product mix were adjusted and the pricing system of key products was regulated. The human resources centre redesigned the remuneration system and staff appraisal system, hence improving the professional service standards. The R&D centre established a long-term plan for the R&D of products and set up an evaluation system for project management.

The all-directional integration of internal resources enhanced the Group's control and adaptability to the end-user market and significantly increased its overall operating efficiency.

Research and Development

The R&D centre of the Group planned the R&D of products for the coming 3-5 years, which introduced the development strategy reinforcing the Group's core competitiveness in two aspects – the pharmaceutical preparations for modern Chinese medicine and new medicine preparation formulation.

For new medicines, the main focus will be on the cerebro-cardiovascular system, nervous system, special antibiotics and anti-neoplastic medicine. The dosage form products will mainly contain the pharmaceutical preparations such as controlled and sustained release preparation and lipid microspheres. Through the implementation of the product R&D plan, the Group will build up its own niche and advantages over variety, production technique and quality standard, thus enhancing the overall market competitiveness of the Group in the technical aspects.

With an aim to strengthening its capability on innovation, the Group started the construction of a new R&D centre in Shunde District, Foshan City this April. The new R&D centre occupies a gross floor area of approximately 3,000 square metres, comprising technical research centers for extracting Chinese medicine, compounding and pharmaceutical preparations, quality research centres and stability testing laboratories. A pilot plant with area of approximately 1,500 square metres will be constructed at the same time. The new R&D centre is expected to commence operation in October this year.

Acquisitions

On 28 April 2010, the Group completed the acquisition of 93% interests in Foshan City An Ning Company Limited ("An Ning"), the principal asset of which was a 49% interest in Dezhong. As a result of the acquisition, the shareholding in Dezhong held by the Group has increased from 51% to 96.57%. "Dezhong" is a well-known brand name in China and 17 products of Dezhong have been included in the National List of Essential Drugs 2009, of which Biyankang Tablet is an exclusive product. Moreover, 27 products of Dezhong have been added to the Catalogue of Drugs for Basic National Medical Insurance, of which three are newly added exclusive products. The Group has positioned Dezhong as a leading and modernized domestic Chinese medicine enterprise specialized in the production of medicines for rhinitis and other diseases of the respiratory system.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Investments

The Group commenced various projects during the period to boost its productivity and competitiveness to meet the strong demand in the pharmaceuticals market in future.

In January 2010, the Group acquired land use right in connection with a piece of land located at Gao Ming District, Foshan City with a site area of approximately 106 mus at a consideration of approximately RMB17.50 million. Such piece of land will be used for the construction of a modern Chinese medicinal materials extracting and preprocessing centre in order to raise the productivity to satisfy the increasing sales demand. Upon completion and opening of the centre, it could provide the Group's subsidiaries and other customers with medicinal materials which are extracted and processed in advance.

In April 2010, the Group successfully bid for land use right in connection with a piece of land located at Chancheng District, Foshan City, with a site area of approximately 33 mus at a consideration of approximately RMB77.06 million. Such piece of land will be used for the construction of the Group's headquarters, product examination centre and a modernized pharmaceutical research institute.

FUTURE OUTLOOK

The Board considers that with the rising living standard and the intensifying trend of aging population within the country, the demand for medical and healthcare services in China will keep increasing. With the general public becoming more health conscious, the demand for quality but low-priced medicines will continue to grow. Besides, the New Medical Reform has also created revolutionary changes and valuable development opportunities to the pharmaceuticals industry. In view of the progressive implementation of the basic medicine system, more policies will be introduced to support pharmaceutical enterprises with renowned brand names which will enjoy more development advantages. All the above factors will offer the Group with tremendous market opportunities.

The Board acknowledges that the development of pharmaceuticals industry is susceptible to changes in the national pharmaceutical policies. For example, the new policy concerning centralized purchasing and centralized distribution will further regulate the market; the introduction of new GMP standard raises the quality control standard of pharmaceuticals production, which in turn speeds up the industrial adjustment and consolidation; and the "Drug Price Control Measures" to be introduced in near future will bring changes in pricing principles, evaluating methods and individual pricing, which in turn adjusts the pharmaceuticals pricing and R&D strategy for pharmaceutical enterprises. Besides, the Group needs to face competition from other pharmaceutical enterprises and the challenges within the industry. Many competitors have broader product mix, more unique product lines, stronger brand name and distribution network and possibly lower costs. All these factors will cause uncertainty and fluctuation for the Group's product sales. The Group may be required to make more investment to upgrade its production facilities, conduct marketing activities for products and brand names and develop new medicines, which may in turn increase its costs and expenses.

Overall, the Board believes that through adhering to the established development strategies and enhancing the three critical operating capabilities for innovative R&D, production quality and marketing ability, as well as grasping the favorable opportunities for mergers and acquisitions in terms of brand names, sales network, product and R&D, the Group will successfully take advantage of the golden development opportunities within the pharmaceuticals industry and optimize value for shareholders.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2010, the Group's turnover increased by 37.8% to approximately HK\$437.80 million from approximately HK\$317.70 million for the corresponding period of last year. The increase in turnover was the result of the Group's successful strategy in the enhancement of promotional efforts targeting at public medical institutions, major OTC end markets and basic medical institutions in rural areas. In addition, such increase was also attributable to the consolidation of the results of the newly acquired operating subsidiary, Nanhai Pharmaceutical, into the consolidated accounts of the Group. Nanhai Pharmaceutical contributed approximately HK\$33.38 million to the Group's turnover during the period.

Cost of Sales and Gross Profit Margin

For the six months ended 30 June 2010, the Group's cost of sales was approximately HK\$197.08 million, representing an increase of approximately 15.5% as compared to approximately HK\$170.58 million for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 73.7%, 7.5% and 18.8% of the total cost of sales respectively, as compared to 67.2%, 11.8% and 21% for the corresponding period of last year. For the six months ended 30 June 2010, the Group's gross profit margin was approximately 55.0%, representing an increase of 8.7 percentage points as compared to 46.3% for the corresponding period of last year. Such increase was attributable to our Group's successful acquisition of Nanhai Pharmaceutical which helped to reduce the Group's purchasing costs of medicinal materials. Moreover, the Group's efforts in consolidating its internal resources as well as strengthening cost control measures on medicinal and packaging materials also contributed to the improvement in gross profit margin.

Other Revenue

For the six months ended 30 June 2010, the Group's other revenue was approximately HK\$8.24 million, representing an increase of approximately 65.9% as compared to HK\$4.97 million for the corresponding period of last year. Such increase was attributable to the increase of government grants by approximately HK\$2.72 million to approximately HK\$6.01 million and the increase of approximately HK\$0.60 million of interest income as compared to the corresponding period of last year.

Other Net Income

For the six months ended 30 June 2010, the Group's other net income was approximately HK\$8.58 million, representing an increase of 475.4% as compared to HK\$0.18 million for the corresponding period of last year. Such increase was attributable to approximately HK\$8.77 million gain on the disposal of the land and buildings of the old factory in Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), a major subsidiary of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Costs

For the six months ended 30 June 2010, the Group's selling and distribution costs amounted to approximately HK\$148.27 million (six months ended 30 June 2009: HK\$61.52 million), which mainly consisted of advertising and promotion expenses of approximately HK\$116.20 million, salary expenses of sales and marketing staff of HK\$20.42 million, transportation costs of approximately HK\$5.01 million and other cost of sales of approximately HK\$6.64 million. The increase in selling and distribution costs as compared to last year was due to the fact that the Group put more effort on products branding and TV media so as to expand the market share.

Administrative Expenses

For the six months ended 30 June 2010, the Group's administrative expenses amounted to approximately HK\$43.22 million (six months ended 30 June 2009: HK\$31.47 million). The administrative expenses mainly comprised staff costs of approximately HK\$10.06 million, depreciation and amortization of approximately HK\$3.46 million, expenses for product research and development of approximately HK\$8.34 million and office rental and other expenses of approximately HK\$21.36 million.

Profit from Operations

For the six months ended 30 June 2010, the Group's profit from operations was approximately HK\$66.05 million, representing an increase of 11.7% as compared to approximately HK\$59.12 million for last year; and the operating profit ratio (defined as the profit from operations divided by the total turnover) decreased to approximately 15.1% from 18.6% for the corresponding period of last year. Such decrease was due to the significant increase in selling and distribution costs for the period ended 30 June 2010.

Finance Costs

For the six months ended 30 June 2010, the Group's finance costs amounted to approximately HK\$1.60 million (six months ended 30 June 2009: HK\$2.61 million). Such decrease as compared to the corresponding period of last year was attributable to the reduction of the Group's bank loans to approximately HK\$52.73 million (31 December 2009: HK\$84.04 million). The effective interest rate for the loans was 5.31% (31 December 2009: 5.6%).

Earnings per share

For the six months ended 30 June 2010, the basic earnings per share was HK\$ cent 1.74, representing a 12.6% decrease as compared to HK\$ cent 1.99 for the corresponding period of last year. The decrease in basic earnings per share was due to the decrease of 0.7% in the profit attributable to equity shareholders, which amounted to approximately HK\$29.05 million (six months ended 30 June 2009: HK\$ 29.26 million), and the increase in the weighted average ordinary shares in issue, which was 1,672,327,000 shares (six months ended 30 June 2009: 1,469,804,640).

Liquidity and Financial Resources

As at 30 June 2010, the Group's current assets amounted to approximately HK\$538.76 million (31 December 2009: HK\$508.25 million), including cash and cash equivalents and deposits with banks of approximately HK\$201.73 million (31 December 2009: HK\$233.50 million). Current liabilities amounted to approximately HK\$257.92 million (31 December 2009: HK\$268.18 million). Net current assets aggregated to approximately HK\$280.84 million (31 December 2009: HK\$240.06 million). The Group's current ratio slightly increased from 1.9 as at 31 December 2009 to 2.1. The gearing ratio (defined as the bank loans divided by the interests attributable to equity shareholders of the Company) dropped from 12.2% for as at 31 December 2009 to 6.3% due to partial repayment of bank loans.

BANK LOANS AND PLEDGE OF ASSETS

As at 30 June 2010, the balance of the Group's bank loan was approximately HK\$52.73 million (31 December 2009: HK\$84.04 million), of which approximately HK\$23.39 million (31 December 2009: HK\$59.51 million) was secured by the Group's assets.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

EXCHANGE RATE RISK

During the period, individual companies within the Group have limited foreign currency risk as most of the transactions were denominated in the same currency as the functional currency of the operations to which they related. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited and no financial instrument has been used for the purpose of hedging exchange rate risks.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2010, the Group employed a total of approximately 2,727 (30 June 2009: 1,828) staff members, including directors of the Company, of which the number of sales staff, production staff and those engaged in research and development, operation and administration and senior management were approximately 1,027, 1,110 and 590 respectively. Remuneration packages were principally comprised of salary and discretionary performance bonus based on individual merits. The Group's total remuneration for employees for the year was approximately HK\$55.34 million (30 June 2009: HK\$46.44 million).

OTHER INFORMATION

INTERIM DIVIDEND

As the Group requires sufficient cash to continue its business expansion and fund the investment to upgrade the production capacity, the Board did not recommend payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

CONNECTED TRANSACTION

Acquisition of the 93% equity interest in An Ning

On 30 January 2010, Guangdong Medi-World entered into the acquisition agreement with Mr. HE Zhaojian (“Mr. HE”) pursuant to which Guangdong Medi-World has agreed to acquire and Mr. HE has agreed to sell a 93% equity interest in An Ning at a consideration of RMB116 million. The principal asset of An Ning is its holding of a 49% equity interest in Dezhong and the remaining 51% equity interest in Dezhong is held indirectly by the Company.

On even date, the Company also entered into the subscription agreement with Extra Benefit Corp. (“Extra Benefit”) and Profit Channel Development Limited (“Profit Channel”) as the subscribers and Mr. XU Tiefeng and Mr. YANG Bin as the guarantors, pursuant to which the Company has agreed to issue and allot and each of Extra Benefit and Profit Channel has agreed to subscribe for 77,500,000 new shares at a price of HK\$0.85 per share. The net proceeds of approximately HK\$131.75 million from the subscription has been used to finance payment of the consideration for the acquisition of the equity interest in An Ning.

As Mr. HE, Extra Benefit and Profit Channel are connected persons of the Company, the entering into of the acquisition agreement and the subscription agreement constitute connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

Completion of the acquisition of An Ning took place in accordance with the terms of the acquisition agreement on 28 April 2010. The issue and allotment of an aggregate of 155,000,000 subscription shares was completed on 10 May 2010. Further details of the aforesaid acquisition and subscription were disclosed in the Company’s circular dated 11 March 2010, the Company’s announcements dated 4 February 2010, 28 April 2010 and 10 May 2010.

CONTINUING CONNECTED TRANSACTIONS

Entering into the master supply agreement with Foshan Nanhai Pharmaceutical Group Co. Ltd. (“Nanhai Pharmaceutical Group”)

On 10 November 2009, the Company had entered into the master supply agreement with Nanhai Pharmaceutical Group, pursuant to which the Group agreed to supply and Nanhai Pharmaceutical Group and its subsidiaries agreed to purchase certain products during the three-year period from 1 January 2010 to 31 December 2012. Nanhai Pharmaceutical Group is owned as to 25.5% by each of Mr. YANG Bin and Mr. XU Tiefeng who are executive directors and controlling shareholders of the Company. Therefore, the sale and purchase of the products contemplated under the master supply agreement (the “Transactions”) constitute continuing connected transactions of the Company under the Listing Rules.

According to the master supply agreement, the value of the Transactions shall not exceed the annual caps of RMB40,000,000, RMB50,000,000 and RMB62,500,000 for each of the financial year ending 31 December 2010, 2011 and 2012 respectively, details of the Transactions have been disclosed in the Company's circular dated 4 December 2009. The master supply agreement and the Transactions were approved by the Company's independent shareholders at an extraordinary general meeting held on 21 December 2009.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2010, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) ("SFO") as recorded in the register which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions in shares and underlying shares of the Company:

Name of Directors	Capacity	Number of Ordinary Shares	Underlying Shares	Total Interests	Approximate
			Pursuant to Share Options		Percentage of Total Interests to Issued Share Capital (%)
XU Tiefeng	Interest of a controlled corporation	641,602,563 (Notes 1 & 2)	–	641,602,563	35.98
YANG Bin	Interest of a controlled corporation	641,602,563 (Notes 1 & 3)	–	641,602,563	35.98

Notes:

1. Of the 641,602,563 shares, 564,102,563 shares are held by Sureplan Limited ("Sureplan"), which is 25% owned indirectly by Mr. XU Tiefeng and 50% owned indirectly by Mr. YANG Bin who are deemed to be interested in Sureplan's interest in the Company under SFO. Mr. XU Tiefeng and Mr. YANG Bin are directors of Sureplan.
2. Of the 641,602,563 shares, 77,500,000 shares are held by Extra Benefit. Extra Benefit is wholly owned by Mr. XU Tiefeng.
3. Of the 641,602,563 shares, 77,500,000 shares are held by Profit Channel. Profit Channel is wholly owned by Mr. YANG Bin.

Other than as disclosed above, none of the directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2010, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in shares of the Company:

	Capacity	Number of Ordinary Shares	Total Interests	Percentage of Issued Capital (%)
Hensil Investments Group Limited	beneficial owner	605,290,886 <i>(Note 1)</i>	605,290,886	33.94
Foshan Development Company Limited	interest of a controlled corporation	605,290,886 <i>(Note 1)</i>	605,290,886	33.94
Sureplan	beneficial owner	564,102,563 <i>(Note 2)</i>	564,102,563	31.63
Extra Benefit	interest of a controlled corporation	564,102,563 <i>(Note 2)</i>	641,602,563	35.98
	beneficial owner	77,500,000 <i>(Note 3)</i>		
Profit Channel	interest of a controlled corporation	564,102,563 <i>(Note 2)</i>	641,602,563	35.98
	beneficial owner	77,500,000 <i>(Note 4)</i>		
First Linkup Development Limited	Other	564,102,563 <i>(Note 2)</i>	564,102,563	31.63
WU Chiu Kong	Other	564,102,563 <i>(Note 2)</i>	564,102,563	31.63

Notes:

- The 605,290,886 shares are held by Hensil Investments Group Limited ("Hensil Investments"), which is wholly owned by Foshan Development Company Limited ("Foshan Development"). By virtue of its interest in Hensil Investments, Foshan Development is deemed to be interested in such 605,290,886 shares held by Hensil Investments.

On 15 July 2010, the entire shareholding interest in Hensil Investments held by Foshan Development has been transferred to Foshan Overseas Investment Limited. Details of change of controlling shareholder are referred to the announcement of the Company dated 12 July 2010.

2. The 564,102,563 shares are held by Sureplan, which is owned indirectly as to 25% by Mr. WU Chiu Kong, 25% by Mr. XU Tiefeng and 50% by Mr. YANG Bin. Profit Channel is deemed to be interested in Sureplan's interest in the Company under the SFO by virtue of Profit Channel being entitled to control the exercise of not less than one-third of the voting power at the general meeting of Sureplan. Profit Channel is wholly owned by Mr. YANG Bin. Sureplan is owned as to 25% by Extra Benefit and 25% by First Linkup Development Ltd ("First Linkup") whereas Extra Benefit is wholly owned by Mr. XU Tiefeng and First Linkup is wholly owned by Mr. WU Chiu Kong. So, Mr. YANG Bin, Mr. XU Tiefeng and Mr. WU Chiu Kong are deemed to be interested in Sureplan's interest in the Company under SFO.
3. The 77,500,000 shares are held by Extra Benefit. Extra Benefit is wholly owned by Mr. XU Tiefeng.
4. The 77,500,000 shares are held by Profit Channel. Profit Channel is wholly owned by Mr. YANG Bin.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2010.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at an Extraordinary General Meeting of the Company held on 22 May 2002 and amended by the Company's shareholders at an Annual General Meeting on 29 May 2006. The refreshment of the scheme mandate limit of the Scheme was approved by the Company's shareholders at an Extraordinary General Meeting of the Company held on 28 August 2009.

No option was granted, exercised, cancelled or lapsed during the period.

As at 30 June 2010, none of the directors and chief executives had any personal interests in the share options to subscribe for the shares of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in above section headed "Share Option Scheme" of this report, at no time during the period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2010 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

The Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors’ securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the period. Furthermore, senior management who are likely to be possession of unpublished price sensitive information have been required to comply with the provisions of the Model Code.

CHANGE IN DIRECTORS’ INFORMATION

Change in information of the directors of the Company required to be disclosed pursuant to Rule 13.51(2)(c) of the Listing Rules are as follows:-

Mr. PANG Fu Keung, an independent non-executive director of the Company, has become a fellow member of the Hong Kong Institute of Certified Public Accountants;

Mr. LO Wing Yat, an independent non-executive director of the Company, resigned as director of CITIC Bank International Limited (formerly know as CITIC Ka Wah Bank Limited) and Longlife Group Holdings Ltd (stock code: 8037). Mr. LO is an executive director of Jia Sheng Holdings Limited (stock code: 729) whose name has been changed to Thunder Sky Battery Limited.

REVIEW OF INTERIM REPORT

The interim report for the period has been reviewed by the audit committee of the Company.

By Order of the Board
DU Richeng
Chairman

Hong Kong, 13 August 2010

INDEPENDENT AUDITOR'S REPORT



Review Report to the Board of Directors of Winteam Pharmaceutical Group Limited (Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 18 to 40 which comprises the consolidated balance sheet of Winteam Pharmaceutical Group Limited as of 30 June 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2010 \$'000	2009 \$'000
Turnover	3	437,799	317,704
Cost of sales		(197,079)	(170,575)
Gross profit		240,720	147,129
Other revenue	4	8,240	4,966
Other net income	4	8,576	18
Selling and distribution costs		(148,270)	(61,522)
Administrative expenses		(43,218)	(31,471)
Profit from operations		66,048	59,120
Finance costs	5(a)	(1,603)	(2,607)
Profit before taxation	5	64,445	56,513
Income tax	6	(16,710)	(12,636)
Profit for the period		47,735	43,877
Other comprehensive income for the period, net of tax			
Exchange differences on translation of financial statements of overseas subsidiaries		7,931	3,712
Available-for-sale securities: net movement in fair value reserve	7	1,218	305
		9,149	4,017
Total comprehensive income for the period		56,884	47,894
Profit attributable to:			
– Equity shareholders of the Company		29,049	29,257
– Non-controlling interests		18,686	14,620
Profit for the period		47,735	43,877
Total comprehensive income attributable to:			
– Equity shareholders of the Company		37,148	33,365
– Non-controlling interests		19,736	14,529
Total comprehensive income for the period		56,884	47,894
Earnings per share (HKD)	8		
Basic		1.74 cents	1.99 cents
Diluted		N/A	N/A

The notes on pages 24 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 16.

CONSOLIDATED BALANCE SHEET

At 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Non-current assets			
Fixed assets	10		
– Property, plant and equipment		220,603	247,352
– Investment properties		2,478	2,543
– Interests in leasehold land under operating leases		83,922	97,200
– Construction in progress		19,953	14,396
		326,956	361,491
Intangible assets		124,528	135,127
Goodwill		187,909	186,197
Other financial assets		7,264	5,828
Deferred tax assets		9,522	6,045
Advanced payments for fixed assets	10	54,510	–
		710,689	694,688
Current assets			
Inventories	11	159,975	115,041
Trade and other receivables	12	177,054	159,710
Deposits with banks	13	9,629	22,033
Cash and cash equivalents	13	192,102	211,462
		538,760	508,246
Current liabilities			
Trade and other payables	14	189,515	169,366
Bank loans	15	52,730	84,042
Current tax payable		11,266	8,493
Current portion of deferred government grants		4,412	6,283
		257,923	268,184
Net current assets		280,837	240,062
Total assets less current liabilities		991,526	934,750

CONSOLIDATED BALANCE SHEET

At 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Non-current liabilities			
Deferred tax liabilities		55,225	55,261
Deferred government grants		9,637	7,625
		64,862	62,886
Net assets		926,664	871,864
Capital and reserves	16		
Share capital		178,341	162,841
Reserves		662,575	523,273
Total equity attributable to equity shareholders of the Company		840,916	686,114
Non-controlling interests		85,748	185,750
Total equity		926,664	871,864

The notes on pages 24 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Note	Share capital \$'000	Share premium \$'000	Capital		Reserve fund \$'000	Fair value reserve \$'000	Retained profits \$'000	Non-controlling interests Total \$'000	Total equity \$'000	
				redemption reserve \$'000	Exchange reserves \$'000						
At 1 January 2009		83,097	204,057	297	40,473	18,196	524	12,660	359,304	195,810	555,114
Changes in equity for the six months ended 30 June 2009											
New shares issued during the period		79,744	209,207	-	-	-	-	-	288,951	-	288,951
Dividends approved in respect of the previous year	16(b)	-	-	-	-	-	-	(11,399)	(11,399)	-	(11,399)
Total comprehensive income for the period		-	-	-	3,948	(4)	164	29,257	33,365	14,529	47,894
Transfer to reserve fund		-	-	-	-	191	-	(191)	-	-	-
Dividends declared by subsidiaries paid to non-controlling interests		-	-	-	-	-	-	-	-	(34,495)	(34,495)
At 30 June 2009		162,841	413,264	297	44,421	18,383	688	30,327	670,221	175,844	846,065
At 1 July 2009		162,841	413,264	297	44,421	18,383	688	30,327	670,221	175,844	846,065
Changes in equity for the six months ended 31 December 2009											
Total comprehensive income for the period		-	-	-	480	4	612	14,797	15,893	9,906	25,799
Transfer to reserve fund		-	-	-	-	4,459	-	(4,459)	-	-	-
At 31 December 2009		162,841	413,264	297	44,901	22,846	1,300	40,665	686,114	185,750	871,864

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Note	Share capital \$'000	Share premium \$'000	Capital			Reserve fund \$'000	Fair value reserve \$'000	Retained profits \$'000	Non-controlling interests Total \$'000	Total equity \$'000
				redemption reserve \$'000	Exchange reserves \$'000						
At 1 January 2010		162,841	413,264	297	44,901	22,846	1,300	40,665	686,114	185,750	871,864
Changes in equity for the six months ended 30 June 2010											
New shares issued during the period	16(a)	15,500	116,250	-	-	-	-	-	131,750	-	131,750
Acquisition of non-controlling interest without a change in control	19	-	-	-	-	-	-	(14,096)	(14,096)	(119,738)	(133,834)
Total comprehensive income for the period		-	-	-	7,478	-	621	29,049	37,148	19,736	56,884
Transfer to reserve fund		-	-	-	-	147	-	(147)	-	-	-
At 30 June 2010		178,341	529,514	297	52,379	22,993	1,921	55,471	840,916	85,748	926,664

The notes on pages 24 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 – Unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2010 \$'000	2009 \$'000
Cash generated from operations		86,779	70,521
PRC income tax paid		(17,650)	(13,833)
Net cash generated from operating activities		69,129	56,688
Net cash used in investing activities		(190,047)	(78,061)
Net cash generated from financing activities		99,901	20,464
Net decrease in cash and cash equivalents		(21,017)	(909)
Cash and cash equivalents at 1 January		211,462	147,764
Effect of foreign exchange rate changes		1,657	(131)
Cash and cash equivalents at 30 June	13	192,102	146,724
Analysis of balance of cash and cash equivalents			
Deposits with banks maturing within three months when placed		22,926	12,491
Cash at bank and in hand		169,176	134,233
		192,102	146,724

The notes on pages 24 to 40 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorized for issue on 13 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 17.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 April 2010.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Improvements to HKFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy and the impact of these developments on the interim financial report is as follows:

- As a result of the adoption of the amendments to HKAS 27, the acquisition of an additional interest in a non-wholly owned subsidiary will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. During the current period, the Group has acquired an additional 45.57% interest in a non-wholly owned subsidiary. Further details are disclosed in note 19 to this interim financial report.
- The impact of the majority of the revisions to HKFRS 3 and HKFRS 5, and the other revisions to HKAS 27 has not yet had a material effect on this interim financial report as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- As a result of the amendment to HKAS 17, Leases, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate and the amendment to HKAS 17 has had no material impact on the Group's interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore there have had no impact on Group's financial statements in previous periods.

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore there have had no impact on the Group's financial statements in previous periods.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

3 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Sale of pharmaceutical products		
– Pills and tablets	228,853	200,651
– Medicine wine	11,109	21,244
– Injections	51,007	29,132
– Paste, granules and others	146,830	66,677
	437,799	317,704

4 OTHER REVENUE AND NET INCOME

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Other revenue		
Dividend income from unlisted equity securities	115	130
Rental income	603	508
Government grants	6,010	3,289
Interest income	1,183	587
Others	329	452
	8,240	4,966
Other net income		
Gain/(loss) on disposal of fixed assets	8,774	(9)
Others	(198)	27
	8,576	18

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	1,603	2,607
(b) Other items		
Cost of inventories	197,759	170,806
Depreciation and amortisation		
– investment properties	152	147
– interests in leasehold land under operating leases	1,048	1,014
– property, plant and equipment	13,177	12,247
– intangible assets	12,004	11,022
Impairment losses for trade and other receivables	1,517	766
Operating lease charges on buildings	190	186
Research and development costs	8,343	4,113

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Current tax		
PRC income tax for the period	19,849	14,330
Under-provision in respect of prior years	953	401
	20,802	14,731
Deferred tax		
Origination and reversal of temporary differences	(4,092)	(2,095)
	16,710	12,636

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the six months ended 30 June 2010.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

Pursuant to the Corporate Income Tax Law of the PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for Foshan Feng Liao Xing Pharmaceutical Company Limited ("Feng Liao Xing"), Foshan Dezhong Pharmaceutical Company Limited ("Dezhong") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were recognised as advanced and new technology enterprises to enjoy a preferential corporate income tax rate of 15% for a three-year period with effect from 1 January 2008 pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau.

In addition, under the new tax law, the gross amount of dividends received by the Company from its PRC subsidiaries in respect of their profits generated after 1 January 2008 is subject to withholding tax at a rate of 5%. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax.

7 OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Changes in fair value recognised during the period	1,433	360
Income tax effect	(215)	(55)
	1,218	305

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$29,049,000 (six months ended 30 June 2009: \$29,257,000) and the weighted average of 1,672,327,000 ordinary shares (six months ended 30 June 2009: 1,469,804,640) in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the periods presented and, therefore, diluted earnings per share is not presented.

9 SEGMENT REPORTING

The Group manages its businesses by subsidiaries. In accordance with HKFRS 8, "Operating segment" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following five operating subsidiaries as reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Dezhong
- Feng Liao Xing
- Guangdong Medi-World
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical")

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets.

Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Depreciation and amortisation attributable to unallocated head office and corporate assets and fair value adjustments related to the addition of fixed assets through acquisition of subsidiaries are not allocated to the reportable segments.

The measure used for reporting segment profit is gross profit. Selling and distribution costs and administrative expenses are not included in the measurement for the reporting segment profit and are presented as unallocated head office and corporate expenses. The Group's senior executive management is also provided with segment information concerning segment revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2010 and 2009 is set out below.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

9 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

Six months ended 30 June 2010

	Dezhong \$'000	Feng Liao Xing \$'000	Guangdong Medi-World \$'000	Luya Pharmaceutical \$'000	Nanhai \$'000	Total \$'000
Revenue from external customers	158,902	75,762	119,841	49,913	33,381	437,799
Inter-segment revenue	-	-	-	-	47,697	47,697
Reportable segment revenue	158,902	75,762	119,841	49,913	81,078	485,496
Reportable segment profit	106,960	28,393	89,372	25,407	7,591	257,723
Impairment of – Trade and other receivables	202	845	298	172	-	1,517
Reportable segment assets	299,062	186,849	458,129	105,802	68,475	1,118,317
Additions to non-current segment assets during the period	14,541	1,022	51,086	1,174	200	68,023
Reportable segment liabilities	85,941	56,867	126,775	34,438	55,565	359,586

Six months ended 30 June 2009

	Dezhong \$'000	Feng Liao Xing \$'000	Guangdong Medi-World \$'000	Luya Pharmaceutical \$'000	Nanhai \$'000	Total \$'000
Revenue from external customers	109,106	96,377	81,352	30,869	-	317,704
Reportable segment revenue	109,106	96,377	81,352	30,869	-	317,704
Reportable segment profit	55,803	32,959	60,884	14,744	-	164,390
Impairment of – Trade and other receivables	86	96	(838)	1,422	-	766
Reportable segment assets	258,429	186,831	268,823	99,624	30,193	843,900
Additions to non-current segment assets during the period	2,416	210	4,620	8,646	-	15,892
Reportable segment liabilities	71,013	68,984	97,201	35,351	21,984	294,533

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

9 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenues and profit

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Revenue		
Reportable segment revenue	485,496	317,704
Elimination of inter-segment revenue	(47,697)	–
Consolidated turnover	437,799	317,704
Profit		
Reportable segment profit	257,723	164,390
Elimination of inter-segment profits	(3,361)	–
Reportable segment profit derived from the Group's external customers	254,362	164,390
Other revenue and net income	16,816	4,984
Depreciation and amortisation	(16,150)	(15,331)
Finance costs	(1,603)	(2,607)
Unallocated head office and corporate expenses	(188,980)	(94,923)
Consolidated profit before taxation	64,445	56,513

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

9 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenues and profit (Continued)

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Assets		
Reportable segment assets	1,118,317	843,900
Elimination of inter-segment receivables	(103,599)	(27,638)
	1,014,718	816,262
Non-current financial assets	7,264	5,828
Deferred tax assets	9,522	6,045
Unallocated head office and corporate assets	217,945	374,799
Consolidated total assets	1,249,449	1,202,934
Liabilities		
Reportable segment liabilities	359,586	294,533
Elimination of inter-segment payables	(103,599)	(27,638)
	255,987	266,895
Current tax liabilities	11,266	8,493
Deferred tax liabilities	55,225	55,261
Unallocated head office and corporate liabilities	307	421
Consolidated total liabilities	322,785	331,070

(c) Geographic information

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

10 FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired items of plant and machinery (including payments for construction in progress) with a cost of \$13,151,000 (six months ended 30 June 2009: \$207,672,000 (including additions through acquisition of subsidiaries)).

The Group made advanced payments of \$54,510,000 during the six months ended 30 June 2010 (six months ended 30 June 2009: \$Nil) for acquiring interests in leasehold land under operating leases, for which ownership certificates were not obtained as of 30 June 2010.

Items of buildings, plant and machinery with a net book value of \$35,085,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: \$30,000), resulting in a gain on disposal of \$8,774,000 (six months ended 30 June 2009: loss of \$9,000).

(b) Pledged assets

Certain interests in leasehold land held for own use under operating leases and buildings with aggregate carrying value of \$56,634,000 were pledged as securities of bank loans of the Group as at 30 June 2010 (see note 15).

11 INVENTORIES

During the six months ended 30 June 2010, \$680,000 (six months ended 30 June 2009: \$231,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of recognition of a write-down of inventories to estimated net realisable value.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

12 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable with the following ageing analysis:

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Within 3 months of invoice date	128,930	120,040
3 to 6 months after invoice date	22,255	16,473
More than 6 months after invoice date	11,898	12,659
Trade debtors and bills receivable	163,083	149,172
Less: allowance for doubtful debts	(9,881)	(8,364)
Subtotal	153,202	140,808
Deposits, prepayments and other receivables	23,852	18,902
	177,054	159,710

Trade debtors and bills receivable are due within 30 to 90 days from the date of billing.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Deposits with banks maturing within three months when placed	22,926	–
Deposits with banks maturing beyond three months when placed	9,629	22,033
Cash at bank and in hand	169,176	211,462
Cash and cash equivalents in the consolidated balance sheet	201,731	233,495
Less: deposits with banks maturing beyond three months when placed	(9,629)	(22,033)
Cash and cash equivalents in the condensed consolidated cash flow statement	192,102	211,462

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

14 TRADE AND OTHER PAYABLES

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Trade creditors	87,221	63,672
Other creditors and accrued charges	77,923	74,427
Advances received from customers	24,371	31,267
	189,515	169,366

Trade creditors are due within 1 month or on demand from the date of billing.

15 BANK LOANS

At 30 June 2010, the Group's bank loans are repayable as follows:

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Within 1 year or on demand	52,730	84,042

At 30 June 2010, the Group's bank loans are secured as follows:

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
Bank loans		
Secured	29,804	65,871
Unsecured	22,926	18,171
	52,730	84,042

As at 30 June 2010, bank loans of \$23,385,000 (31 December 2009: \$59,511,000) were secured by personal guarantee from Mr. Yang Bin and Mr. Xu Tiefeng, two executive directors of the Company, and interests in leasehold land and buildings of the Group with carrying amount of \$56,634,000 (31 December 2009: \$91,310,000) (see note 10). Bank loan of \$6,419,000 (31 December 2009: \$6,360,000) was secured by the interests in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 72.7% equity interest.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

On 10 May 2010, the Company allotted and issued 155,000,000 ordinary shares of \$0.10 each at the issue price of \$0.85 per share. The proceeds were used to settle the consideration for the acquisition of the 93% equity interest in a subsidiary. Details of the acquisition are set out in note 19.

(b) Dividends

- (i) Dividends payable to equity shareholders attributable to the interim period

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Final dividend in respect of the previous financial year approved and paid during the following interim period, of nil cent per ordinary share (six months ended 30 June 2009: \$0.7 cent per ordinary share)	–	11,399

17 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2010 \$'000	At 31 December 2009 \$'000
	Contracted for	64,110

18 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the six months ended 30 June 2010, transactions with the following parties are considered to be related party transaction:

Name of related party	Relationship
Foshan Nanhai New & Specific Pharmaceutical Co., Ltd. ("Nanhai New & Specific Pharmaceutical")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company
Foshan Nanhai Pharmaceutical Group Medicine Co., Ltd. ("Nanhai Medicine")	Effectively 25.5% owned by Mr. Yang Bin and 25.5% owned by Mr. Xu Tiefeng, directors of the Company
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Sales of goods to Nanhai New & Specific Pharmaceutical	4,324	511
Sales of goods to Nanhai Medicine	2,349	–

The amount due from Nanhai New & Specific Pharmaceutical and Nanhai Medicine as at 30 June 2010 amounted to \$2,511,000 and \$1,033,000 respectively (31 December 2009: \$122,000 and nil respectively).

As at 30 June 2010, bank loans of \$23,385,000 (31 December 2009: \$59,511,000) were secured by personal guarantee from Mr. Yang Bin and Mr. Xu Tiefeng, two executive directors of the Company, and interests in leasehold land and buildings of the Group with carrying amount of \$56,634,000 (31 December 2009: \$91,310,000). Bank loan of \$6,419,000 (31 December 2009: \$6,360,000) was secured by the interests in leasehold land held by Hanyu Pharmaceutical, a company in which Mr. Yang Bin and Mr. Xu Tiefeng jointly hold 72.7% equity interest.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

18 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2010 \$'000	2009 \$'000
Short-term employee benefits	2,332	1,736
Post-employment benefits	48	24
	2,380	1,760

19 ACQUISITION OF A SUBSIDIARY AND NON-CONTROLLING INTERESTS

In April 2010, the Group acquired 93% equity interests in Foshan City An Ning Company Limited ("An Ning") with cash consideration of RMB116,000,000 (approximately equivalent of \$131,953,000), the assets of which were the 49% equity interest in Dezhong and cash in bank of \$20,000 as of the acquisition date. The transaction cost for the acquisition was \$1,900,000. Through the acquisition, the Group increased its effective equity interest in Dezhong from 51% to 96.57%. The carrying amount of Dezhong's net assets in the consolidated financial statements on the date of the acquisition was \$262,756,000. The Group recognised a decrease in non-controlling interests of \$119,738,000 and a decrease in retained earnings of \$13,396,400.

The following table summarises the effect of changes in the Group's equity interest in Dezhong:

	Six months ended 30 June 2010 \$'000
Equity interest in Dezhong at beginning of period	118,836
Effect of increase in Dezhong's equity interest	119,738
Share of comprehensive income during the six months ended 30 June 2010	8,364
Equity interest in Dezhong at the end of period	246,938