盈天醫藥集團有限公司

# WINTEAM PHARMACEUTICAL GROUP LIMITED

(Stock code: 00570)

# 2011
## INTERIM REPORT

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# CORPORATE INFORMATION

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

## 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 2011, together with the comparative figures for the corresponding period in 2010 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

During the period under review, turnover of the Group increased by 16.1% to HK$508,397,000 from HK$437,799,000 for the corresponding period of last year. Profit from operations was HK$48,566,000, representing a decrease of 26.5% as compared to HK$66,048,000 for the corresponding period of last year. Profit attributable to equity shareholders was HK$36,480,000, representing an increase of 25.6% as compared to HK$29,049,000 for the corresponding period of last year. Basic earnings per share were HK cents 2.05, representing an increase of 17.8% as compared to HK cents 1.74 for the corresponding period of last year.

## INDUSTRY REVIEW

### Assured usage of essential drugs

Following the introduction of essential drugs system, in November 2010, the State Council issued the "Guiding Opinions on Establishing and Regulating the Procurement System of Essential Drugs for Primary Health Care Institutions Run by the Government (《建立和規範政府辦基層醫療衛生機構基本藥物採購機制的指導意見》)", which developed specific provisions for the tender and procurement of drugs. The centralized procurement system of drugs is having profound effect on the pharmaceutical market as a whole. The major functions of the centralized procurement of drugs are: to regulate the drugs procurement activities of health care institutions, ensure the quality of drugs and lower the prices of drugs, promote the consolidation of the pharmaceutical industry and enhance the optimization and integration of the industry.

According to the five main tasks in the health care reform of the State Council in 2010, system of essential drugs shall be fully implemented in primary health care institutions run by the government in 2011. On the back of this, other types of health care institutions shall also regard essential drugs as preferred drugs with usage volume reaching a certain percentage. The usage of essential drugs in all levels of hospitals shall be assured.

### The rising trend in the prices for traditional Chinese medicines materials dampened

According to the statistics of Information Center of the China Association of Traditional Chinese Medicine (TCM), during the period from August 2010 to August 2011, there was a significant increase in the overall prices of medicine materials. Currently, the prices for some of TCM materials have softened somewhat, among 537 products monitored, 353 products recorded rise in prices in August as compared to the corresponding period last year, accounting for approximately 66% of the total; while 379 products recorded rise in prices in July, accounting for approximately 71% of the total. The rapid rise in the prices of TCM materials have attracted attention from the relevant departments of China, which have recently promulgated some measures with the aim of curbing the speculation activities. In addition, there will also be a series of policies relating to TCM materials industry, including the national reserve plan for commonly-used TCM materials, change in the mode of circulation for TCM materials and TCM materials source-tracing system to ensure the stable supply of TCM materials. The rising trend in the prices for TCM materials has been dampened.

### The use of antibiotics restricted

The Ministry of Health of China is seeking public opinions on "Management Methods on Clinical Use of Antibiotics (Draft for Soliciting Opinions) (《抗菌藥物臨床應用管理辦法（徵求意見稿）》)", which intends to introduce grading management of antibiotics to strictly control the use of high price medicines and provide for liability clauses. The introduction of "Management Methods on Clinical Use of Antibiotics (《抗菌藥物臨床應用管理辦法》)" will directly result in the decrease in the types and quantity of antibiotics in use.

## BUSINESS REVIEW

### Sales of Products

**1. Analysis by National Essential Drugs:**

As of 30 June 2011, the Group had 322 types of medicines (including product specifications), 62 were included in National Essential Drugs List and 34 were included in the Supplemental Essential Drugs List of provinces, which are all essential drugs of the Group. The remaining 226 types of products were non-essential drugs. Analysis of their sales is as follows:

| | **For the 6 months ended 30 June** | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **HK$'000** | HK$'000 | |
| Essential Drugs | **225,167** | 165,996 | 35.6% |
| Non-Essential Drugs | **283,230** | 271,803 | 4.2% |
| Total | **508,397** | 437,799 | 16.1% |

*Essential Drugs*

The essential drugs of the Group mainly included respiratory system drug, nasal preparations and cerebro-cardiovascular drug. Benefiting from the full implementation of the national system of essential drugs in primary health care institutions and a significant increase in usage volume of essential drugs, turnover of the Group's essential drugs during the period recorded a 35.6% growth from HK$165,996,000 for the corresponding period of last year to HK$225,167,000. The percentage of the turnover of essential drugs to the Group's total turnover increased to 44.3% from 37.9% for the corresponding period of last year.

*Non-Essential Drugs*

Turnover of the Group's non-essential drugs was HK$283,230,000, representing an increase of 4.2% as compared to HK$271,803,000 for the corresponding period of last year and accounted for 55.7% of the Group's total turnover. The non-essential drugs of the Group mainly included rheumatic diseases and injury drug, antibiotics and oncology drugs as well as other products.

**2. Analysis by Types of Medicines:**

| | For the 6 months ended 30 June | | |
|---|---|---|---|
| | **2011** | 2010 | Change |
| | **HK$'000** | HK$'000 | |
| Respiratory system drug and nasal preparations | **229,822** | 176,372 | 30.3% |
| Cerebro-cardiovascular drug | **75,993** | 72,270 | 5.2% |
| Rheumatic diseases and traumatic injury drug | **64,564** | 31,977 | 101.9% |
| Antibiotics | **36,100** | 43,385 | -16.8% |
| Oncology drug | **8,805** | 6,527 | 34.9% |
| Other products | **93,113** | 107,268 | -13.2% |
| Total | **508,397** | 437,799 | 16.1% |

*Respiratory system drug and nasal preparations*

During the period under review, sales of respiratory system drug and nasal preparations were HK$ 229,822,000, representing an increase of 30.3% from the corresponding period of last year and accounted for 45.2% of the Group's turnover. Such increase was mainly driven by the significant growth in turnover of Yu Ping Feng Granule and Bi Yan Kang Tablet.

Yu Ping Feng Granule was an exclusive product in the National Essential Drugs List, mainly targeted at hospitals in the first and second-tiered cities. As of 18 August 2011, Yu Ping Feng Granule won the tender in centralized essential drugs procurement of 28 provinces across China at reasonable prices, laying a solid foundation for the further growth of Yu Ping Feng. Currently, sales coverage of Yu Ping Feng Granule has successfully been extended to over 10,000 primary health care institutions, where prescription sales grew with a strong momentum. Driven by the health care institutions and the effective implementation of the national OTC terminal promotion plan of our core products, sales of Yu Ping Feng Granule in OTC retail market also recorded higher growth. Turnover of Yu Ping Feng Granule increased significantly by 107.8% as compared to the corresponding period of last year.

Bi Yan Kang Tablet was also an exclusive product in the National Essential Drugs List. We adopted a marketing strategy for Bi Yan Kang Tablet, where strategic cooperation with large-scale pharmaceutical chains serves as a core platform and increased our penetration rate in primary health care institutions. In the first half of 2011, we achieved substantial progress from this strategy. The Group signed strategic partnership agreements with more than 1,000 large-scale retail drug stores nationwide and Bi Yan Kang Tablet was included in the Strategic Cooperation Product List of top retail stores. This led to breakthroughs in maintaining reasonable price in OTC retail market, improvement in product display and increase in the rate of first recommendation, etc. The accelerating implementation of the system of national essential drugs also provided a good opportunity for the increase of penetration rate of Bi Yan Kang in primary health care institutions, which resulted in its successful penetration to over 5,000 primary health care institutions in the first half of 2011 and became the new driving force for the fast growth of Bi Yan Kang. Sales of Bi Yan Kang grew 28.2% as compared to the corresponding period last year.

*Rheumatic diseases and traumatic injury drug*

During the period under review, sales of rheumatic diseases and traumatic injury drug were HK$64,564,000, representing a significant growth of 101.9% as compared to the corresponding period of last year, and accounted for 12.7% of the Group's turnover.

This type of Chinese Patent Medicine was the Group's featured products. Main products are Feng Liao Xing Rheumatism Medicinal Wine and exclusive external products for traumatic injury: Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Jinlong Shangshi Herbal Plaster (金龍傷濕止痛膏), Jin Shu Dieda Pill (金術跌打丸) and Jiehong Dieda Tincture (竭紅跌打酊). The significant growth of rheumatic diseases and traumatic injury drug was mainly due to the development of new sales strategy of the Group for this type of medicine since the second half of 2010. Through redesigning packaging and adjusting product prices and sales channels for rheumatic diseases and traumatic injury products, we have successfully penetrated the basic medical market at county and village and town levels as well as the retail market and achieved satisfactory sales results in the first half of 2011, of which sales of Feng Liao Xing Rheumatism Medicinal Wine increased significantly by 276.8% as compared to the corresponding period of last year.

*Cerebro-cardiovascular drug*

During the period under review, sales of cerebro-cardiovascular drug were HK$75,993,000, representing an increase of 5.2% as compared to the corresponding period of last year, and accounted for 14.9% of the Group's turnover.

Cerebro-cardiovascular drug was one of the key product lines of the Group in its product development. Due to the lowering of the prices of cerebro-cardiovascular drug by the State, there was a certain downward adjustment in the sales price of our major product Sheng Tong Ping (Nifedipine Sustained-release Tablet). Notwithstanding this, Sheng Tong Ping won the tender in the centralized procurement of essential drugs of Shanghai in May 2011, securing its important market share in Shanghai. In addition, Sheng Tong Ping was rated as Self-Innovated Product of Guangdong Province, which we believe will enable Sheng Tong Ping to enjoy more advantages in the forthcoming essential drugs procurement of Guangdong Province.

During the period under review, the Group also launched two new products: (1) Yishuang (依雙) (Compound Eualapril) which is a drug to lower blood pressure. (2) Ruizhi (鋭旨) (Nicotinic Acid Sustained Release Capsules) which is a drug to descenden blood fats. At present, nicotinic acid drug is one of the most commonly-used blood fats lowering drugs in clinical use. Ruizhi is an exclusive product and health insurance class B type in China. It adopts a brand new technology of multi-layer compound isolation sustained release film which facilitates a more stable and slow release of medicines with enhanced safety and efficacy and fewer side effects, and is currently the only blood fat lowering medicine that can lower LP(a) (independent risk factor for coronary). Ruizhi also won the tender in the centralized procurement of essential drugs of Shanghai.

As of 18 August 2011, Chinese Patent Medicine-Shengmai Capsule (生脈膠囊) which is used to cure coronary and angina pectoris won the highest number of tender among the same product type in the centralized procurement of essential drugs in 21 provinces. In addition, the Group will launch New Sheng Tong Ping (Nifedipine Sustained-release Tablet III) with better pressure lowering effect and more advanced technology, which will benefit the Group in expanding the market scale of its Cerebro-cardiovascular drugs.

*Antibiotics*

During the period under review, sales of antibiotics were HK$36,100,000, representing a decrease of 16.8% as compared to the corresponding period of last year. Such drop was mainly due to the introduction of a State policy that restricted the use of antibiotics. Sales of antibiotics accounted for 7.1% of the Group's turnover. The only type of antibiotics marketed by the Group is Gaode (Cefodizime Sodium for injection).

*Oncology drug*

During the period under review, sales of oncology drug were HK$8,805,000, representing an increase of 34.9% as compared to the corresponding period of last year and accounted for 1.7% of the Group's revenue. The only type of oncology drug marketed by the Group is Sha Pei Lin (Group A Streptococcus for injection), which is mainly used to cure ascites caused by malignant neoplasm and as ancillary treatment of tumors in AAA-Grade hospitals at city level.

*Other products*

During the period under review, sales of other products were HK$93,113,000, representing a decrease of 13.2% as compared to the corresponding period of last year. Due to the significant price hike in TCM materials in the past year, the Group adjusted its product mix by reducing or ceasing, the production of some non-leading products to maintain our overall gross profit margin.

## Marketing

During the period under review, the Group incurred significant capital on improving its sales network which centers around Guangdong, Beijing and Shanghai and spreads across China, including 1,500 first and second-class distributors and approximately 1,000 large-scale retail chain drug stores with which we have established strategic cooperation. Products were sold to more than 10,000 cities and primary hospitals. An information management system for distributors and retail chains was established for real-time monitoring of the flow of products.

Following the completion of integration last year, the organizational structure for our sales team also improved. We set up 59 offices in China, established five departments, including Prescription Drugs Department, OTC Department, Antibiotic Department, Oncology Drug Department and Agency Business Development Department with frontline professional sales staff reaching 1,500. Departments of Operation Management, Marketing, Business Channels and Governmental Affairs serves to provide professional services and support to the frontline sales staff.

During the period under review, the sales of OTC and prescription drugs of the Group are mainly focused on: (1) maintaining a stable prices of our key products; (2) maintaining the existing products that were included in national or provincial essential drugs list and striving to include more products in the essential drug lists at all levels with the product niches supported by scientific proof; (3) increasing our input in the marketing and promotion of prescription drugs through academic activities, expanding our expert networks and organizing more professional training for our sales staff with a view to increasing publicity of our branded OTC medicines on media and enhancing brand image.

## Research and Development

During the period under review, the Group obtained approval for a number of new medicines, including Fexofenadine Hydrochloride Capsules (非索非那定膠囊) (allergic rhinitis drug), Aspirin Paracetamol and Caffeine Tablets (阿咖酚片) (cold remedy), Shengxue Tiaoyuan Granule (升血調元顆粒) (gynecology Chinese Patent Medicine), Weipixiao Granule (胃痞消顆粒) (chronic gastritis Chinese Patent Medicine) and Nicotinic Acid Sustained-Release Capsules (煙酸緩釋膠囊) (Blood Fats Lowering Medicine), which supplemented our product lines.

We have also applied for the production of the exclusive products in China, including Fexofenadine Pseudoephedrine HCI Sustained Release Capsules (非索偽麻緩釋小丸膠囊) (Category III New Chemical Drug), Yao Tong Kang Granule (腰痛康顆粒) (Category VI New Traditional Chinese Medicine) and Nifedipine Sustained-release Tablet III (硝苯地平緩釋片(III)). In addition, through technological cooperation, the Group obtained the approval of Gaode (Cefodizime) materials medicines by way of entrusted production. This cooperation allows us to obtain an advantage in the supply of upstream materials and achieve significant breakthrough in the technical quality. All these products are expected to improve the Group's core competitiveness.

## Gaoming Base

Construction of the Gaoming TCM extraction project commenced in October last year and the main structure of TCM extraction workshop and medicines materials pre-processing workshop was completed as of 18 August 2011. Currently, the interior decoration is underway. The equipment required will be delivered and installed in August and trial production is expected to begin in January next year. The aggregate investment amount on the civil works and equipments of the Gaoming project was approximately RMB133 million. The value of signed contract amounted to approximately RMB109 million and the estimated amount of unsigned contract was approximately RMB24 million. Following the completion of the construction and installation work, the facility is expected to be able to process 20,000 tonnes of TCM materials and has a production capacity of 80 million packets of TCM drinking pills. The center will greatly increase our production capacity of Chinese Patent Medicine.

## Passing the second review with regard to advanced and new technology enterprises

As at 23 August 2011, Guangdong Provincial Department of Science and Technology announced the proposed list of 624 enterprises as the first batch of advanced and new technology enterprises passing the second review. The list of enterprises was made public and the announcement period was 15 working days. Foshan Dezhong Pharmaceutical Company Limited ("Dezhong"), Foshan Feng Liao Xing Pharmaceutical Company Limited ("Feng Liao Xing") and Guangdong Medi-World Pharmaceutical Co. Ltd. ("Guangdong Medi-World"), which are subsidiaries of the Group, are all on the list. We expect that these 3 enterprises will continue to be entitled to the preferential income tax rate of 15%.

## FUTURE OUTLOOK AND GROWTH STRATEGY

### Implementation of merger and acquisition

The Group will select target enterprises which have unique types of products and appropriate market platform for mergers and acquisitions. The aim of acquisition is to supplement the Group' product lines in cerebro-cardiovascular drug, modified release technology products, oral cephalosporin products and oncology drug, realize the optimization of product mix and expand our marketing network and sales scale. Meanwhile, the Group will also consider acquisition of new businesses in addition to its key product mix such as biological medicines to seek for new source of growth in operation.

### Construction of medicine materials warehousing base

The Group will build a base for drug materials collection and warehousing in Gansu Province for the centralized procurement of TCM medicines and unified supply to guarantee quality and lower cost.

### Investment in TCM health industry

The Group plans to invest in TCM health industry. The potential projects under consideration include launching the promotion of Yuanjilin Herbal Tea; exploring the business of high-end TCM drinking pills; and proceeding with the project of Lingnan TCM Healthy Culture Industry Park to cater for the market needs for health care and fitness, rehabilitation and leisure and high-end health care.

## FINANCIAL REVIEW

### Turnover

For the six months ended 30 June 2011, the Group's turnover increased by 16.1% to approximately HK$508,397,000 from approximately HK$437,799,000 for the corresponding period of last year. The increase in turnover was the result of the Group's successful strategy in expanding products coverage in primary health care institutions, and forming the partnerships with strategic distributors and drug chains to increase its OTC retail market coverage and penetration.

### Cost of Sales and Gross Profit Margin

For the six months ended 30 June 2011, the Group's cost of sales was approximately HK$228,031,000, representing an increase of approximately 15.7% as compared to approximately HK$197,079,000 for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 70.9%, 8.1% and 21.0% of the total cost of sales respectively, as compared to 73.7%, 7.5% and 18.8% for the corresponding period of last year. Despite the significant hike in TCM materials which exerted pressure on the cost of sales, we adjusted our product mix by reducing or ceasing the production of non-leading products with low gross profit margin and managed to maintain the overall gross profit of approximately 55.1%, close to that for last year.

## Other Revenue

For the six months ended 30 June 2011, the Group's other revenue was approximately HK$6,930,000, representing a decrease of approximately 15.9% as compared to approximately HK$8,240,000 for the corresponding period of last year. Such decrease was mainly attributable to the decrease of government grants by approximately HK$545,000, the decrease of approximately HK$315,000 of interest income as well as the decrease of rental income and other income by approximately HK$450,000 as compared to the corresponding period of last year.

## Other Net Income

For the six months ended 30 June 2011, the Group's other net income was approximately HK$949,000, representing a decrease of 88.9% as compared to approximately HK$8,576,000 for the corresponding period of last year. The reason for such decrease was that the net income for the corresponding period of last year was mainly a one-off gain of approximately HK$8,774,000 on the disposal of the land and buildings of the old factory in Guangdong Medi-world, and no similar gain realized during the period.

## Selling and Distribution Costs

For the six months ended 30 June 2011, the Group's selling and distribution costs amounted to approximately HK$181,536,000 (six months ended 30 June 2010: HK$148,270,000), which mainly consisted of advertising and promotion expenses of approximately HK$60,230,000, salary expenses of sales and marketing staff of approximately HK$33,539,000, distribution and traveling costs of approximately HK$77,148,000 and other cost of sales of approximately HK$10,619,000. The increase in selling and distribution costs as compared to last year was due to the fact that the Group allocated more resources to develop strong product portfolios, improve nationwide marketing and sales capabilities, so as to increase our essential drugs coverage in basic health institutions. We also incurred more capital to increase publicity of our branded OTC medicine through media promotion and advertisement. We believe that the increased marketing and selling expenses, which is not a protracted nature, will strengthen our competitive advantages and we will benefit from China's rapidly growing primary pharmaceutical market.

## Administrative Expenses

For the six months ended 30 June 2011, the Group's administrative expenses amounted to approximately HK$58,143,000 (six months ended 30 June 2010: HK$43,218,000). Such increase was mainly attributable to the increase of research and development costs by HK$9,132,000 to approximately HK$17,475,000 and office expenses by HK$3,314,000 to approximately HK$4,439,000 as compared to the corresponding period of last year. The administrative expenses mainly comprised staff costs of approximately HK$14,655,000 depreciation and amortization of approximately HK$4,952,000, expenses for product research and development of approximately HK$17,475,000 and office rental and other expenses of approximately HK$21,061,000.

### Profit from Operations

For the six months ended 30 June 2011, the Group's profit from operations was approximately HK$48,566,000, representing a decrease of 26.5% as compared to approximately HK$66,048,000 for the corresponding period of last year; and the operating profit ratio (defined as the profit from operations divided by the total turnover) decreased to approximately 9.6% from 15.1% for the corresponding period of last year. Such decrease was mainly due to the increase in selling and distribution costs for the period ended 30 June 2011.

### Finance Costs

For the six months ended 30 June 2011, the Group's finance costs amounted to approximately HK$5,005,000 (six months ended 30 June 2010: HK$1,603,000). Such increase as compared to the corresponding period of last year was attributable to the increase of the Group's bank loans to approximately HK$241,692,000 (31 December 2010: HK$109,294,000). The effective interest rate for the loans was 5.6% (31 December 2010: 5.3%).

### Earnings per share

For the six months ended 30 June 2011, the basic earnings per share was HK$ cent 2.05, representing a 17.8% increase as compared to HK$ cent 1.74 for the corresponding period of last year. The increase in basic earnings per share was due to the increase of 25.6% in the profit attributable to equity shareholders, which amounted to approximately HK$36,480,000 (six months ended 30 June 2010: HK$29,049,000).

### Liquidity and Financial Resources

As at 30 June 2011, the Group's current assets amounted to approximately HK$599,305,000 (31 December 2010: HK$600,712,000), including cash and cash equivalents and deposits with banks of approximately HK$120,324,000 (31 December 2010: HK$180,887,000). Current liabilities amounted to approximately HK$474,332,000 (31 December 2010: HK$489,089,000). Net current assets aggregated to approximately HK$124,973,000 (31 December 2010: HK$111,623,000). The Group's current ratio slightly increased from 1.2 as at 31 December 2010 to 1.3. The gearing ratio (defined as the bank loans divided by the interests attributable to equity shareholders of the Company) increased from 13.1% for as at 31 December 2010 to 27.2%. Such increase was due to the increment of bank loans as the Group requires sufficient fund to continue its business expansion and upgrade the production capacity.

## BANK LOANS AND PLEDGE OF ASSETS

As at 30 June 2011, the balance of the Group's bank loan was approximately HK$241,692,000 (31 December 2010: HK$109,294,000), of which approximately HK$175,554,000 (31 December 2010: HK$94,016,000) was secured by the Group's assets with an aggregate carrying value of approximately HK$86,386,000 (31 December 2010: HK$117,508,000). The new bank loans were mainly used for the payment of the equity acquisition of Foshan Zhong Hong Co., Ltd. which holds 49% equity interest of Feng Liao Xing.

## CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2011 (31 December 2010: 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 2011, the Group employed a total of 3,304 (30 June 2010: 2,727) 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 1,484, 1,206 and 614 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$70,957,000 (30 June 2010: HK$55,340,000).

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

## SALE AND PURCHASE OF SHAREHOLDING INTERESTS BETWEEN CONTROLLING SHAREHOLDERS

On 19 May 2011, Hensil Investments Group Limited ("Hensil Investments"), a controlling shareholder of the Company, entered into the sale and purchase agreement ("S&P Agreement") with Extra Benefit Corp. ("Extra Benefit") and Profit Channel Development Limited ("Profit Channel") in relation to the sale and purchase of 605,290,886 shares which represents the entire shareholding interests in the Company owned by Hensil Investments. Extra Benefit and Profit Channel are wholly owned by Mr. XU Tiefeng and Mr. YANG Bin respectively. Pursuant to the S&P Agreement, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares for the total consideration of HK$680,952,246.75, representing HK$1.125 per ordinary share. The completion of this transaction shall take place on or before 18 October 2011. The initial 30% of the consideration was settled in cash upon signing the S&P Agreement and the remaining 70% of the consideration will be settled in cash at the completion.

According to one of the terms of the S&P Agreement, Hensil Investments gave an irrevocable undertaking which the voting rights attached to 181,587,266 shares, representing approximately 30% of 605,290,886 shares, are vested upon Extra Benefit and Profit Channel during the period from 19 May 2011 to the earlier of the date on which the completion takes place and S&P Agreement is terminated (the "Undertaking Period").

Pursuant to Rule 26.1(d) of the Hong Kong Code on Takeovers and Mergers, an unconditional mandatory cash offer was required to be made to public shareholders. The offeror is Profit United Investments Limited ("Profit United"), which is 50% owned directly by each of Mr. XU Tiefeng and Mr. YANG Bin. The Offer closed on 8 July 2011 and the offeror received valid acceptance in respect of 71,526 shares. Details of the offer and acceptance of the offer are referred to the Company's composite document dated 17 June 2011 and joint announcement dated 8 July 2011, respectively.

## INTERNAL REORGANISATION OF A CONTROLLING SHAREHOLDER

On 12 July 2011, the Board was informed by Sureplan Limited ("Sureplan") that on 11 July 2011, Sureplan transferred 141,025,641 shares to First Linkup Development Limited ("First Linkup") at a nominal consideration of HK$1.00 and at the same time First Linkup transferred 17% and 8% equity interest in Sureplan to Profit Channel and Extra Benefit respectively, representing First Linkup's entire equity holding in Sureplan prior to the said transfer (the "First Linkup Allocation"). As a result of the First Linkup Allocation, (i) Sureplan directly held 423,076,922 shares, representing approximately 23.72% of the total issued share capital of the Company; (ii) First Linkup directly held 141,025,641 shares, representing approximately 7.91% of the total issued share capital of the Company; (iii) Sureplan is now owned as to 67% by Profit Channel and 33% by Extra Benefit; and (iv) First Linkup has ceased to have any interests in Sureplan. Details of the change of the shareholding structure for Sureplan are referred to the Company's announcement dated 12 July 2011.

In August 2011, First Linkup sold 1,025,641 shares. As the date of this interim report, First Linkup held 140,000,000 shares, representing approximately 7.85% of the total issued share capital of the Company.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2011, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares of the Company as at 30 June 2011:

| Name of Directors | Capacity | Number of Ordinary Shares | Total Interests | Approximate Percentage of Total Interests to Issued Share Capital |
|---|---|---|---|---|
| XU Tiefeng | interest of controlled corporations | 641,602,563 *(Notes 1 & 2)* | 944,248,006 | 52.95% |
| | interest of a controlled corporation | 302,645,443 *(Note 4)* | | |
| YANG Bin | interest of controlled corporations | 641,602,563 *(Notes 1 & 3)* | 944,248,006 | 52.95% |
| | interest of a controlled corporation | 302,645,443 *(Note 4)* | | |

Notes:

1. Of the 641,602,563 shares, 564,102,563 shares were held by Sureplan, which was 25% owned indirectly by Mr. XU Tiefeng and 50% owned indirectly by Mr. YANG Bin. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in Sureplan's interest in the Company under SFO. Mr. XU Tiefeng and Mr. YANG Bin both are directors of Sureplan.

2. Of the 641,602,563 shares, 77,500,000 shares are held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

3. Of the 641,602,563 shares, 77,500,000 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

4. Pursuant to S&P Agreement dated 19 May 2011, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in the shares to be acquired by Extra Benefit and Profit Channel in the Company under the SFO respectively.

   According to one of the terms of the S&P Agreement, Hensil Investments gave an irrevocable undertaking which the voting rights attached to 181,587,266 shares, representing approximately 30% of 605,290,886 shares, are vested upon Extra Benefit and Profit Channel during the Undertaking Period. Details of this transaction are set out under the section headed "Sale and Purchase of Shareholding Interests between Controlling Shareholders" of this report.

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.

As at the date of this report, the interests or short positions of the directors and chief executives 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 352 of the SFO were as follows:

Long positions in shares and underlying shares of the Company as at the date of this report:

| **Name of Directors** | **Capacity** | **Number of Ordinary Shares** | **Total Interests** | **Approximate Percentage of Total Interests to Issued Share Capital** |
|---|---|---|---|---|
| XU Tiefeng | interest of controlled corporations | 500,648,448 *(Notes 1, 2 & 4)* | 803,293,891 | 45.04% |
| | interest of a controlled corporation | 302,645,443 *(Note 5)* | | |
| YANG Bin | interest of controlled corporations | 500,648,448 *(Notes 1, 3 & 4)* | 803,293,891 | 45.04% |
| | interest of a controlled corporation | 302,645,443 *(Note 5)* | | |

Notes:

1. Of the 500,648,448 shares, 423,076,922 shares are held by Sureplan. On 11 July 2011, Sureplan transferred 141,025,641 shares to First Linkup at a nominal consideration of HK$1.00 and at the same time First Linkup transferred 17% and 8% equity interest in Sureplan to Profit Channel and Extra Benefit respectively. As a result, Sureplan is 33% owned indirectly by Mr. XU Tiefeng and 67% owned indirectly by Mr. YANG Bin. First Linkup has ceased to have any interest in Sureplan. The shareholding of Sureplan decreased from 564,102,563 shares to 423,076,922 shares. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in Sureplan's interest in the Company under SFO. Mr. XU Tiefeng and Mr. YANG Bin both are directors of Sureplan.

2. Of the 500,648,448 shares, 77,500,000 shares are held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

3. Of the 500,648,448 shares, 77,500,000 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

4. Of the 500,648,448 shares, 71,526 shares are held by Profit United, which is 50% owned directly by each of Mr. XU Tiefeng and Mr. YANG Bin.

5. Pursuant to S&P Agreement dated 19 May 2011, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in the shares to be acquired by Extra Benefit and Profit Channel in the Company under the SFO respectively.

   According to one of the terms of the S&P Agreement, Hensil Investments gave an irrevocable undertaking which the voting rights attached to 181,587,266 shares, representing approximately 30% of 605,290,886 shares, are vested upon Extra Benefit and Profit Channel during the Undertaking Period. Details of this transaction are set out under the section headed "Sale and Purchase of Shareholding Interests between Controlling Shareholders" of this report.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2011, 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 and underlying shares of the Company as at 30 June 2011:

| Name of Substantial Shareholders | Capacity | Number of Ordinary Shares | Total Interests | Approximate Percentage of Issued Share Capital |
|---|---|---|---|---|
| Hensil Investments | beneficial owner | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Foshan Overseas Investment Limited | interest of a controlled corporation | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Foshan Public Utilities Holding Co., Ltd. | interest of a controlled corporation | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Sureplan | beneficial owner | 564,102,563 *(Note 2)* | 564,102,563 | 31.63% |
| Extra Benefit | interest of a controlled corporation | 564,102,563 *(Note 2)* | 944,248,006 | 52.95% |
| | beneficial owner | 77,500,000 *(Note 3)* | | |
| | beneficial owner | 302,645,443 *(Note 5)* | | |
| Profit Channel | interest of a controlled corporation | 564,102,563 *(Note 2)* | 944,248,006 | 52.95% |
| | beneficial owner | 77,500,000 *(Note 4)* | | |
| | beneficial owner | 302,645,443 *(Note 5)* | | |
| First Linkup | interest of a controlled corporation | 564,102,563 *(Note 2)* | 564,102,563 | 31.63% |
| WU Chiu Kong | interest of a controlled corporation | 564,102,563 *(Note 2)* | 564,102,563 | 31.63% |

Notes:

1. The 605,290,886 shares are held by Hensil Investments, which is wholly owned by Foshan Overseas Investment Limited ("Foshan Overseas"). By virtue of its interest in Hensil Investments, Foshan Overseas is deemed to be interested in such 605,290,886 shares held by Hensil Investments. As Foshan Overseas is wholly owned by Foshan Public Utilities Holding Co., Ltd. ("Foshan Public Utilities"), Foshan Public Utilities is deemed to be interested in such 605,290,886 shares held by Hensil Investments.

2. The 564,102,563 shares were held by Sureplan, which was owned directly as to 50% by Profit Channel, 25% by Extra Benefit and 25% by First Linkup. Profit Channel, Extra Benefit and First Linkup are wholly owned by Mr. YANG Bin, Mr. XU Tiefeng and Mr. WU Chiu Kong respectively. 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, which is wholly owned by Mr. XU Tiefeng.

4. The 77,500,000 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

5. Pursuant to S&P Agreement dated 19 May 2011, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in the shares to be acquired by Extra Benefit and Profit Channel in the Company under the SFO respectively.

   According to one of the terms of the S&P Agreement, Hensil Investments gave an irrevocable undertaking which the voting rights attached to 181,587,266 shares, representing approximately 30% of 605,290,886 shares, are vested upon Extra Benefit and Profit Channel during the Undertaking Period. Details of this transaction are set out under the section headed "Sale and Purchase of Shareholding Interests between Controlling Shareholders" of this report.

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 2011.

As set out above in the section headed "Sale and Purchase of Shareholding Interests between Controlling Shareholders" of this report, an unconditional mandatory cash offer was required to be made to public shareholders. The offeror is Profit United, which is 50% owned directly by each of Mr. XU Tiefeng and Mr. YANG Bin. The Offer closed on 8 July 2011 and the offeror received valid acceptance in respect of 71,526 shares.

In addition, on 12 July 2011, the Board was informed by Sureplan that shareholding structure of Sureplan was changed on 11 July 2011. As a result, the shareholding of Sureplan decreased from 564,102,563 shares to 423,076,922 shares.

As at the date of this report, the interests or 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 and underlying shares of the Company as at the date of this report:

| Name of Substantial Shareholders | Capacity | Number of Ordinary Shares | Total Interests | Approximate Percentage of Issued Share Capital |
|---|---|---|---|---|
| Hensil Investments | beneficial owner | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Foshan Overseas | interest of a controlled corporation | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Foshan Public Utilities | interest of a controlled corporation | 605,290,886 *(Notes 1 & 5)* | 605,290,886 | 33.94% |
| Sureplan | beneficial owner | 423,076,922 *(Notes 2 & 6)* | 423,076,922 | 23.72% |
| Extra Benefit | interest of a controlled corporation | 423,076,922 *(Note 2)* | 803,222,365 | 45.04% |
| | beneficial owner | 77,500,000 *(Note 3)* | | |
| | beneficial owner | 302,645,443 *(Note 5)* | | |
| Profit Channel | interest of a controlled corporation | 423,076,922 *(Note 2)* | 803,222,365 | 45.04% |
| | beneficial owner | 77,500,000 *(Note 4)* | | |
| | beneficial owner | 302,645,443 *(Note 5)* | | |
| First Linkup | beneficial owner | 140,000,000 *(Note 6)* | 140,000,000 | 7.85% |
| WU Chiu Kong | interest of a controlled corporation | 140,000,000 *(Note 6)* | 140,000,000 | 7.85% |

Notes:

1. The 605,290,886 shares are held by Hensil Investments, which is wholly owned by Foshan Overseas. By virtue of its interest in Hensil Investments, Foshan Overseas is deemed to be interested in such 605,290,886 shares held by Hensil Investments. As Foshan Overseas is wholly owned by Foshan Public Utilities, Foshan Public Utilities is deemed to be interested in such 605,290,886 shares held by Hensil Investments.

2. The 423,076,922 shares are held by Sureplan, which is owned directly as to 67% by Profit Channel and 33% by Extra Benefit. Profit Channel and Extra Benefit are deemed to be interested in Sureplan's interest in the Company under the SFO.

3. The 77,500,000 shares are held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

4. The 77,500,000 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

5. Pursuant to S&P Agreement dated 19 May 2011, Hensil Investments agreed to sell 605,290,886 shares and each of Extra Benefit and Profit Channel agreed to acquire 302,645,443 shares. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in the shares to acquired by Extra Benefit and Profit Channel in the Company under the SFO respectively.

   According to one of the terms of the S&P Agreement, Hensil Investments gave an irrevocable undertaking which the voting rights attached to 181,587,266 shares, representing approximately 30% of 605,290,886 shares, are vested upon Extra Benefit and Profit Channel during the Undertaking Period. Details of this transaction are set out under the section headed "Sale and Purchase of Shareholding Interests between Controlling Shareholders" of this report.

6. On 11 July 2011, Sureplan transferred 141,025,641 shares to First Linkup at a nominal consideration of HK$1.00 and at the same time First Linkup transferred 17% and 8% equity interest in Sureplan to Profit Channel and Extra Benefit respectively. As a result, First Linkup has ceased to have any interest in Sureplan. The shareholding of Sureplan decreased from 564,102,563 shares to 423,076,922 shares. First Linkup is wholly owned by Mr. WU Chiu Kong, who is deemed to be interested in First Linkup's interest in the Company under SFO. Details of the change of shareholding structure of Sureplan are set out in the Company's announcement dated 12 July 2011. First Linkup subsequently sold 1,025,641 shares in August 2011.

## 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 2011, 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 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2011, there was no material acquisition or disposal of subsidiaries by the Company.

## CORPORATE GOVERNANCE

### Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2011 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 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 director of the Company required to be disclosed pursuant to Rule 13.51(2)(c) of the Listing Rules were as follows:

Mr. LO Wing Yat, an independent non-executive director of the Company, resigned as director of China Fortune Holdings Limited (stock code: 110). Mr. LO is an executive director of Thunder Sky Battery Limited (stock code: 729) whose name was changed to Sinopoly 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, 29 August 2011

KPMG

**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 22 to 46 which comprises the consolidated statement of financial position of Winteam Pharmaceutical Group Limited as of 30 June 2011 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 2011 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

29 August 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | Note | Six months ended 30 June 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Turnover** | 3 | **508,397** | 437,799 |
| Cost of sales | | **(228,031)** | (197,079) |
| **Gross profit** | | **280,366** | 240,720 |
| Other revenue | 4 | **6,930** | 8,240 |
| Other net income | 4 | **949** | 8,576 |
| Selling and distribution costs | | **(181,536)** | (148,270) |
| Administrative expenses | | **(58,143)** | (43,218) |
| **Profit from operations** | | **48,566** | 66,048 |
| Finance costs | 5(a) | **(5,005)** | (1,603) |
| **Profit before taxation** | 5 | **43,561** | 64,445 |
| Income tax | 6 | **(6,418)** | (16,710) |
| **Profit for the period** | | **37,143** | 47,735 |
| **Other comprehensive income for the period, net of tax** | | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | | **20,385** | 7,931 |
| Available-for-sale securities: net movement in fair value reserve | 7 | **(2,264)** | 1,218 |
| | | **18,121** | 9,149 |
| **Total comprehensive income for the period** | | **55,264** | 56,884 |
| **Profit attributable to:** | | | |
| – Equity shareholders of the Company | | **36,480** | 29,049 |
| – Non-controlling interests | | **663** | 18,686 |
| **Profit for the period** | | **37,143** | 47,735 |
| **Total comprehensive income attributable to:** | | | |
| – Equity shareholders of the Company | | **54,019** | 37,148 |
| – Non-controlling interests | | **1,245** | 19,736 |
| **Total comprehensive income for the period** | | **55,264** | 56,884 |
| **Earnings per share (HKD)** | 8 | | |
| Basic | | **2.05 cents** | 1.74 cents |
| Diluted | | **N/A** | N/A |

The notes on pages 29 to 46 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(b).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | Note | At 30 June 2011 $'000 | At 31 December 2010 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *10* | | |
| – Property, plant and equipment | | **242,407** | 237,500 |
| – Investment properties | | **3,446** | 3,471 |
| – Interests in leasehold land under operating leases | | **194,817** | 192,544 |
| – Construction in progress | | **64,223** | 41,745 |
| | | **504,893** | 475,260 |
| Intangible assets | | **104,899** | 115,174 |
| Prepayment | | **14,834** | – |
| Goodwill | | **196,987** | 192,578 |
| Other financial assets | | **7,752** | 9,840 |
| Deferred tax assets | | **13,452** | 12,612 |
| | | **842,817** | 805,464 |
| **Current assets** | | | |
| Other financial assets | | **–** | 31,003 |
| Inventories | *11* | **229,209** | 168,973 |
| Trade and other receivables | *12* | **249,772** | 219,849 |
| Deposits with banks | *13* | **22,250** | 60,875 |
| Cash and cash equivalents | *14* | **98,074** | 120,012 |
| | | **599,305** | 600,712 |
| **Current liabilities** | | | |
| Trade and other payables | *15* | **222,913** | 361,291 |
| Bank loans | *16* | **241,692** | 109,294 |
| Current taxation | | **6,425** | 13,466 |
| Current portion of deferred government grants | | **3,302** | 5,038 |
| | | **474,332** | 489,089 |
| **Net current assets** | | **124,973** | 111,623 |
| **Total assets less current liabilities** | | **967,790** | 917,087 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | Note | At 30 June 2011 $'000 | At 31 December 2010 $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **52,753** | 58,312 |
| Deferred government grants | | **10,589** | 9,591 |
| | | **63,342** | 67,903 |
| **NET ASSETS** | | **904,448** | 849,184 |
| **CAPITAL AND RESERVES** | *17* | | |
| Share capital | | **178,341** | 178,341 |
| Reserves | | **711,337** | 657,318 |
| **Total equity attributable to equity shareholders of the Company** | | **889,678** | 835,659 |
| Non-controlling interests | | **14,770** | 13,525 |
| **TOTAL EQUITY** | | **904,448** | 849,184 |

The notes on pages 29 to 46 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | | Interest attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital $'000 | Share premium $'000 | Capital redemption reserve $'000 | Exchange reserve $'000 | Reserve fund $'000 | Fair value reserve $'000 | Retained profits/ Accumulated losses $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'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 | *17(a)* | 15,500 | 116,250 | – | – | – | – | – | 131,750 | – | 131,750 |
| Acquisition of non-controlling interest without a change in control | | – | – | – | – | – | – | (14,096) | (14,096) | (119,738) | (133,834) |
| Profit for the period | | – | – | – | – | – | – | 29,049 | 29,049 | 18,686 | 47,735 |
| Other comprehensive income for the period | | – | – | – | 7,478 | – | 621 | – | 8,099 | 1,050 | 9,149 |
| 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 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | | Interest attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital $'000 | Share premium $'000 | Capital redemption reserve $'000 | Exchange reserve $'000 | Reserve fund $'000 | Fair value reserve $'000 | Retained profits/ Accumulated losses $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
| **At 1 July 2010** | | 178,341 | 529,514 | 297 | 52,379 | 22,993 | 1,921 | 55,471 | 840,916 | 85,748 | 926,664 |
| **Changes in equity for the six months ended 31 December 2010** | | | | | | | | | | | |
| Acquisition of non-controlling interest without a change in control | | – | – | – | 42,252 | 17,634 | 3,294 | (125,177) | (61,997) | (82,096) | (144,093) |
| Profit for the period | | – | – | – | – | – | – | 31,876 | 31,876 | 6,468 | 38,344 |
| Other comprehensive income for the period | | – | – | – | 23,511 | – | 1,353 | – | 24,864 | 3,405 | 28,269 |
| Total comprehensive income for the period | | – | – | – | 23,511 | – | 1,353 | 31,876 | 56,740 | 9,873 | 66,613 |
| Transfer to reserve fund | | – | – | – | – | 10,134 | – | (10,134) | – | – | – |
| **At 31 December 2010** | | 178,341 | 529,514 | 297 | 118,142 | 50,761 | 6,568 | (47,964) | 835,659 | 13,525 | 849,184 |

*For the six months ended 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | | Interest attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital $'000 | Share premium $'000 | Capital redemption reserve $'000 | Exchange reserve $'000 | Reserve fund $'000 | Fair value reserve $'000 | Retained profits/ Accumulated losses $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
| **At 1 January 2011** | | 178,341 | 529,514 | 297 | 118,142 | 50,761 | 6,568 | (47,964) | 835,659 | 13,525 | 849,184 |
| **Changes in equity for the six months ended 30 June 2011** | | | | | | | | | | | |
| Profit for the period | | – | – | – | – | – | – | 36,480 | 36,480 | 663 | 37,143 |
| Other comprehensive income for the period | | – | – | – | 19,803 | – | (2,264) | – | 17,539 | 582 | 18,121 |
| Total comprehensive income for the period | | – | – | – | 19,803 | – | (2,264) | 36,480 | 54,019 | 1,245 | 55,264 |
| Transfer to reserve fund | | – | – | – | – | 4,347 | – | (4,347) | – | – | – |
| **At 30 June 2011** | | 178,341 | 529,514 | 297 | 137,945 | 55,108 | 4,304 | (15,831) | 889,678 | 14,770 | 904,448 |

The notes on pages 29 to 46 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2011 – Unaudited*
*(Expressed in Hong Kong dollars)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | **$'000** | $'000 |
| **Cash generated from operations** | | **(31,689)** | 86,779 |
| PRC income tax paid | | **(19,981)** | (17,650) |
| **Net cash (used in)/generated from operating activities** | | **(51,670)** | 69,129 |
| **Net cash used in investing activities** | | **(97,626)** | (190,047) |
| **Net cash generated from financing activities** | | **123,891** | 99,901 |
| **Net decrease in cash and cash equivalents** | | **(25,405)** | (21,017) |
| **Cash and cash equivalents at 1 January** | | **120,012** | 211,462 |
| Effect of foreign exchange rate changes | | **3,467** | 1,657 |
| **Cash and cash equivalents at 30 June** | *14* | **98,074** | 192,102 |
| **Analysis of balance of cash and cash equivalents** | | | |
| Bank deposits with maturity within three months | | **–** | 22,926 |
| Cash at bank and in hand | | **98,074** | 169,176 |
| | | **98,074** | 192,102 |

The notes on pages 29 to 46 form part of this interim financial report.

## 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 authorised for issue on 29 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 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 Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (the "Group") since the 2010 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 21.

The financial information relating to the financial year ended 31 December 2010 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 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued 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:

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)

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

These developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

## 3 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the People's Republic of China (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 | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Sale of pharmaceutical products** | | |
| – Pills and tablets | **299,773** | 228,853 |
| – Medicine wine | **41,862** | 11,109 |
| – Injections | **45,395** | 51,007 |
| – Paste, granules and others | **121,367** | 146,830 |
| | **508,397** | 437,799 |

The Group experience on average 10-15% higher sales in the second half year, compared to first half year, due to the increased retail demand for its products during autumn and winter. The Group anticipates this demand by increasing its production to build up inventories during summer. As a result, the Group typically reports lower revenues for the first half of the year than the second half.

## 4 OTHER REVENUE AND NET INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Other revenue** | | |
| Dividend income from unlisted equity securities | **–** | 115 |
| Rental income | **597** | 603 |
| Government grants | **5,465** | 6,010 |
| Interest income | **868** | 1,183 |
| Others | **–** | 329 |
| | **6,930** | 8,240 |
| **Other net income** | | |
| Available-for-sale securities: | | |
| – gain on disposal reclassified from equity (Note 7) | **841** | – |
| (Loss)/Gain on disposal of fixed assets | **(84)** | 8,774 |
| Others | **192** | (198) |
| | **949** | 8,576 |

## 5 PROFIT BEFORE TAXATION

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

### (a) Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Interest on bank advances and other borrowings wholly repayable within five years | **5,005** | 1,603 |

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Inventory write-down and losses net of reversals (Note 11) | **266** | 801 |
| Depreciation | | |
| – investment properties | **104** | 152 |
| – interests in leasehold land under operating leases | **2,178** | 1,048 |
| – property, plant and equipment | **16,062** | 13,177 |
| Amortisation | | |
| – intangible assets | **12,860** | 12,004 |
| Net (reversals)/provision for impairment losses for trade and other receivables | **(3,427)** | 1,517 |
| Operating lease charges on buildings | **2,000** | 190 |
| Research and development costs | **17,475** | 8,343 |

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Current tax** | | |
| PRC income tax for the period | **12,462** | 19,849 |
| Under-provision in respect of prior years | **478** | 953 |
| | **12,940** | 20,802 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(6,522)** | (4,092) |
| | **6,418** | 16,710 |

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 2011 and 2010.

Pursuant to the Corporate Income Tax Law ("CIT Law") of Peoples' Republic of China, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%. 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 qualified as Advanced and New Technology Enterprises ("ANTEs") and were entitled to preferential corporate income tax rate of 15% for a three-year period with effect from 1 January 2008.

At 30 June 2011, Feng Liao Xing, Dezhong, and Guangdong Medi-World are in progress of the application for renewal of the qualification of ANTEs for entitlement to preferential corporate income tax rate of 15% for a three-year period with effect from 1 January 2011. The directors of the Company considered that the requirements for the qualification are fulfilled. They estimated that the renewal will be approved by the end of 2011 and have adopted 15% income tax rate in the preparation of this interim financial report.

According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for the recognition of related deferred tax liabilities.

## 7 OTHER COMPREHENSIVE INCOME

### Available-for-sale securities

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Changes in fair value recognised during the period | **(3,504)** | 1,433 |
| Gain on disposals transferred to profit or losses (Note 4) | **841** | – |
| Income tax effect | **399** | (215) |
| | **(2,264)** | 1,218 |

## 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 $36,480,000 (six months ended 30 June 2010: $29,049,000) and the weighted average of 1,783,410,000 ordinary shares (six months ended 30 June 2010: 1,672,327,000) 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, which offer different products. 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 reportable segments. No operating segments have been aggregated to form the following reportable segments. The following summary describes the major products in each of the Group's reportable segments:

- Dezhong: this segment mainly engages in sales and manufacture of pills and tablets, major products include Bi Yan Kang and VC Yinqiao Tablet;
- Feng Liao Xing: this segment mainly engages in sales and manufacture of medicine wine, major products include Feng Liao Xing Rheumatism Medicinal Wine;
- Guangdong Medi-World: this segment mainly engages in sales and manufacture of granules, major products include Yu Ping Feng Granule and Sheng Tong Ping (Nifedipine sustained-release Tablet);

## 9 SEGMENT REPORTING (Continued)

- Shandong Luya Pharmaceutical Co., Ltd. ("Luya"): this segment mainly engages in sales and manufacture of injections, major products include Sha Pei Lin (Group A Streptococcus for injection); and

- Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical"): this segment mainly engages in sales and manufacture of various chinese medicinal herbs.

### (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. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as, government grant, rental income, directors' and auditors' remuneration, selling and distribution costs and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter segment, 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.

Information regarding the Group's reportable segments as provided by 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 2011 and 2010 is set out below.

## 9 SEGMENT REPORTING (Continued)

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

Six months ended 30 June 2011

| | Dezhong $'000 | Feng Liao Xing $'000 | Guangdong Medi-World $'000 | Luya $'000 | Nanhai Pharmaceutical $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Revenue from external customers | 187,353 | 123,436 | 140,211 | 44,904 | 12,493 | 508,397 |
| Inter-segment revenue | – | – | – | – | 102,580 | 102,580 |
| **Consolidated turnover** | **187,353** | **123,436** | **140,211** | **44,904** | **115,073** | **610,977** |
| **Reportable segment profit** | **123,259** | **46,746** | **96,448** | **21,793** | **6,337** | **294,583** |
| Net (reversals)/provision for impairment losses of trade and other receivables | 124 | (625) | 109 | (3,035) | – | (3,427) |
| Interest income from bank deposits | 157 | 30 | 671 | 10 | – | 868 |
| Interest expenses | 880 | 59 | 2,654 | 2 | 1,410 | 5,005 |
| Depreciation and amortisation | 12,610 | 6,739 | 7,029 | 3,613 | 112 | 30,103 |
| **Reportable segment assets** | **454,678** | **215,464** | **662,546** | **113,050** | **69,629** | **1,515,367** |
| Additions to non-current segment assets | 25,845 | 5,694 | 8,988 | 1,395 | 517 | 42,439 |
| **Reportable segment liabilities** | **192,024** | **47,185** | **309,574** | **13,057** | **50,889** | **612,729** |

## 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 $'000 | Nanhai Pharmaceutical $'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 |
| **Consolidated turnover** | 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 |
| Net (reversals)/provision for impairment losses of trade and other receivables | 202 | 845 | 298 | 172 | – | 1,517 |
| Interest income from bank deposits | 1,045 | 100 | 20 | 10 | 8 | 1,183 |
| Interest expenses | – | 60 | 1,541 | 2 | – | 1,603 |
| Depreciation and amortisation | 11,950 | 6,651 | 3,754 | 2,155 | 44 | 24,554 |
| **Reportable segment assets** | 299,062 | 186,849 | 458,129 | 105,802 | 68,475 | 1,118,317 |
| Additions to non-current segment assets | 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 |

## 9 SEGMENT REPORTING (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Revenue** | | |
| Reportable segment revenue | **610,977** | 485,496 |
| Elimination of inter-segment revenue | **(102,580)** | (47,697) |
| Consolidated turnover | **508,397** | 437,799 |
| **Profit** | | |
| Reportable segment profit | **294,583** | 257,723 |
| Elimination of inter-segment profits | **(9,581)** | (3,361) |
| Reportable segment profit derived from the Group's external customers | **285,002** | 254,362 |
| Other revenue and net income | **7,879** | 16,816 |
| Depreciation and amortisation | **(31,204)** | (26,381) |
| Finance costs | **(5,005)** | (1,603) |
| Unallocated head office and corporate expenses | **(213,111)** | (178,749) |
| Consolidated profit before taxation | **43,561** | 64,445 |

## 9 SEGMENT REPORTING (Continued)

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

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **1,515,367** | 1,480,726 |
| Elimination of inter-segment receivables | **(155,039)** | (189,645) |
| | **1,360,328** | 1,291,081 |
| Non-current financial assets | **7,752** | 9,840 |
| Deferred tax assets | **13,452** | 12,612 |
| Unallocated head office and corporate assets | **60,590** | 92,643 |
| Consolidated total assets | **1,442,122** | 1,406,176 |
| **Liabilities** | | |
| Reportable segment liabilities | **612,729** | 670,538 |
| Elimination of inter-segment payables | **(155,039)** | (189,645) |
| | **457,690** | 480,893 |
| Current tax liabilities | **6,425** | 13,466 |
| Deferred tax liabilities | **52,753** | 58,312 |
| Unallocated head office and corporate liabilities | **20,806** | 4,321 |
| Consolidated total liabilities | **537,674** | 556,992 |

### (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 operation and assets are situated in the PRC.

## 10 FIXED ASSETS

### (a) Acquisitions and disposals

During the six months ended 30 June 2011, the Group acquired items of plant and machinery (including payments for construction in progress) with a cost of $37,674,000 (six months ended 30 June 2010: $13,151,000 (including additions through acquisition of subsidiaries)).

No payments were made in respect of the leasehold land under operating leases during the six months ended 30 June 2011 (six months ended 30 June 2010: $54,510,000). Ownership certificate of leasehold land amounting to $92,665,000 was not obtained as of 30 June 2011.

Items of buildings, plant and machinery with a net book value of $902,000 were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: $35,085,000), resulting in a loss on disposal of $84,000 (six months ended 30 June 2010: gain of $8,774,000).

### (b) Pledged assets

Certain interests in leasehold land held for own use under operating leases and buildings with aggregate carrying value of $55,008,000 were pledged as securities of bank loans of the Group as at 30 June 2011 (31 December 2010: $55,087,000) (see note 16(i)).

## 11 INVENTORIES

During the six months ended 30 June 2011, $266,000 (six months ended 30 June 2010: $801,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss, being the amount of recognition of a write-down of inventories to estimated net realised value and net of reversals.

## 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 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Within 3 months after invoice date | **154,259** | 122,343 |
| 3 to 6 months after invoice date | **39,126** | 38,009 |
| More than 6 months less than 12 months after invoice date | **26,855** | 27,057 |
| Trade debtors and bills receivable | **220,240** | 187,409 |
| Deposits, prepayments and other receivables | **29,532** | 32,440 |
| | **249,772** | 219,849 |

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

Included in bills receivable are bills discounted to banks with recourse amounted to $13,818,000 as at 30 June 2011 (31 December 2010: Nil). The proceeds from discounted bills are included in the secured bank loans as set out in note 16(i).

## 13 DEPOSITS WITH BANKS

Deposits with banks represent bank deposits with maturity beyond three months. Bank deposits of $17,560,000 were pledged as securities for bank loans of the Group as at 30 June 2011 (31 December 2010: $60,875,000) (see note 16(i)).

## 14 CASH AND CASH EQUIVALENTS

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Cash at bank and in hand | **98,074** | 120,012 |

## 15 TRADE AND OTHER PAYABLES

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Trade creditors | **80,620** | 85,824 |
| Payables for acquiring non-controlling interests | **18,801** | 141,024 |
| Other creditors and accrued charges | **123,492** | 134,443 |
| | **222,913** | 361,291 |

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

## 16 BANK LOANS

At 30 June 2011, the Group's bank loans are repayable as follows:

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Within 1 year or on demand | **241,692** | 109,294 |

At 30 June 2011, the Group's bank loans are secured as follows:

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Bank loans | | |
| Secured | **175,554** | 109,294 |
| Unsecured | **66,138** | – |
| | **241,692** | 109,294 |

## 16 BANK LOANS (Continued)

Notes:

(i) The following assets were pledged as securities for bank loans:

| | Carrying Value | |
|---|---|---|
| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
| Interests in leasehold land and buildings (Note 10(b)) | **55,008** | 55,087 |
| Deposits with banks (Note 13) | **17,560** | 60,875 |
| Bills receivable (Note 12) | **13,818** | – |
| | **86,386** | 117,508 |

Apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (Note 19(a)) jointly hold 72.7% equity interest, was pledged as security for bank loans at the end of each reporting period.

(ii) Secured bank loans of $108,225,000 (31 December 2010: $49,358,000) were guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin.

(iii) Banking facilities of $84,175,000 (31 December 2010: $47,008,000) were utilised to the extent of $53,511,000 (31 December 2010: $23,504,000). The bank loans drawn were secured by bank deposits of $17,560,000 (31 December 2010: $60,875,000) as set out in note 16(i) and were guaranteed by Foshan Nanhai Yikang Pharmaceutical Co., Ltd. ("Nanhai Yikang"), an independent company, which is formerly held by Mr. Yang Bin and Mr. Xu Tiefeng. Nanhai Yikang ceased to be the related party of the Group since 30 December 2010.

## 17 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. There were no movements in share capital during the six months ended 30 June 2011.

### (b) Dividends

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil). No dividends were approved and paid in respect of the previous financial year during the interim periods presented.

## 18 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Contracted for | **66,827** | 25,658 |

## 19 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

During the six months ended 30 June 2011 and 2010, transactions with the following parties are considered to be related party transaction:

| **Name of related party** | **Relationship** |
|---|---|
| Mr. Yang Bin and Mr. Xu Tiefeng | Executive directors and controlling shareholders of the Company |
| Hanyu Pharmaceutical | Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng |
| Nanhai Yikang | Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng |
| Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying") | Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng |
| Foshan Nanhai New & Specific Pharmaceutical Co., Ltd. ("Nanhai New & Specific Pharmaceutical") (Note (i)) | Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng |
| Foshan Nanhai Pharmaceutical Group Medicine Co., Ltd. ("Nanhai Medicine") (Note (i)) | Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng |

Note:

(i) The Nanhai Yikang, Nanhai New & Specific Pharmaceutical and Nanhai Medicine were disposed of by Mr. Yang Bin and Mr. Xu Tiefeng as at 30 December 2010 and ceased to be the related parties of the Group since that date.

## 19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions with related parties (continues)

Particulars of significant transactions between the Group and the related parties are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Purchase of raw materials from: | | |
| Zhejiang Dongying | **3,926** | – |
| Sale of goods to: | | |
| Nanhai New & Specific Pharmaceutical | **–** | 4,324 |
| Nanhai Medicine | **–** | 2,349 |
| | **–** | 6,673 |

The Group's significant trade payable balances due to the related parties are as below:

| | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|
| Zhejiang Dongying | **3,968** | – |

As at 30 June 2011, bank loans of $108,225,000 were secured by interests interests in leasehold land held by Hanyu Pharmaceutical. The bank loans were also guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin.

As at 31 December 2010, bank loan of $49,358,000 was guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin. Bank loan of $15,278,000 was secured by the interests in leasehold land of Hanyu Pharmaceutical. Banking facilities of $47,008,000 were utilised to the extent of $23,504,000. The bank loan drawn was secured by deposits with bank of $60,875,000 and was guaranteed by Nanhai Yikang.

## 19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Short-term employee benefits | **3,112** | 2,332 |
| Post-employment benefits | **61** | 48 |
| | **3,173** | 2,380 |