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盈天醫藥集團有限公司

WINTEAM PHARMACEUTICAL GROUP LIMITED

(formerly known as WING SHAN INTERNATIONAL LIMITED 榮山國際有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code : 570)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

RESULTS HIGHLIGHTS

	Unaudited		Change
	Six months ended 30 June 2009 HK\$'000	2008 HK\$'000	
Turnover	317,704	228,192	39.2%
Gross profit	147,129	84,321	74.5%
Profit before taxation	56,513	30,375	86.1%
Profit attributable to equity shareholders of the Company	29,257	7,871	271.7%
Basic earnings per share (HK cents)	1.99	0.95	109.5%
Gross profit margin (%)	46.3	37.0	9.3 pp
Net profit margin (%)	9.2	3.4	5.8 pp

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Building an outstanding pharmaceutical group through strategic acquisitions

For the six months ended 30 June 2009, Winteam Pharmaceutical Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) recorded a growth in turnover of approximately 39.2% to approximately HK\$317.7 million and operating profit increased approximately 90% to approximately HK\$59.12 million, as compared with the corresponding period of last year. Profit attributable to equity shareholders of the Company recorded approximately HK\$29.26 million, representing an increase of nearly 2.7 times. Basic earnings per share were approximately HK1.99 cents, an increase of approximately 109.5% from the corresponding period of last year. The Board of Directors (the “Board”) of the Company proposed not to distribute any interim dividend for the six months ended 30 June 2009.

During the period under review, we achieved remarkable growth both in turnover and the profit attributable to equity shareholders of the Company. This was mainly attributable to the completion of the acquisition of Guangdong Medi-World Pharmaceutical Co., Ltd. (“Guangdong Medi-World”) and Shandong Lukang Pharmaceutical Group Luya Co., Ltd. (“Luya”), the operating subsidiaries of Smartpoint International Limited (“Smartpoint”), as detailed in the circular of the Company dated 31 December 2008, and the rise of gross profit margin of the Group’s main products.

In addition, the Group announced the acquisition of entire equity interest in Foshan Nanhai Pharmaceutical Group Medicinal Material Co. Ltd. (“Nanhai Pharmaceutical”) in July 2009 as detailed in the announcement of the Company dated 2 July 2009. If the acquisition is completed in the second half of 2009, the results of Nanhai Pharmaceutical from the date of acquisition will be reflected in the consolidated accounts of the Group for the second half of 2009, which we believe will enable the Group to further expand its source of income.

Nanhai Pharmaceutical is principally engaged in the business of purchasing traditional Chinese medicines and manufacturing of prepared Chinese drug in slices. It is a GSP and GMP certified enterprise. It has established a good and stable cooperation relationship with numerous medical institutions and retail drug stores in Foshan, and is a supplier of raw materials of Chinese medicine for major pharmaceutical manufacturers in Foshan and Guangzhou. The premises, in which it operates, stores, processes Chinese medicine and manufactures prepared Chinese drug in slices, cover an area of over 3,000 square meters. Prepared Chinese drug in slices has been, for the first time, included in the national list of essential drugs announced recently. The policy will benefit Nanhai Pharmaceutical.

After the completion of the two acquisitions, the Group’s business will extend to cover the high-end bio-drugs and chemical drugs and also up the chain to the bulk pharmaceutical area, to become an outstanding pharmaceutical group with a more comprehensive operation.

Innovative sales channels and stringent cost control

In addition to the extensive sales network comprising of hospitals and over-the-counter drug stores, during the period under review, the Group has organized academic exchanges in which renowned experts and professors in the field were invited to give speeches to target medical professionals. The Group was able to take such opportunities to promote its major products, to raise the industry’s awareness of the Group’s products and reinforce its sales. Market response to such medical exchange activities was very positive, with the sales of certain core products increased substantially during the period under review. During the period, the Group initiated negotiation on prices of goods supplied with suppliers and carried out tender invitation again so as to lower cost and enhance the gross profit margin of the Group.

Emphasis on R&D, innovation and protection of intellectual property

We have been emphasizing on technological innovation and product R&D. The Group established two innovation platforms – Guangdong Traditional Chinese Medicine Engineering and Technology Research and Development Center (廣東省傳統中藥工程技術研究開發中心) and Foshan New Pharmaceutical Preparation Engineering and Technology Research and Development Center (佛山市藥物新製劑工程技術研究開發中心), and conducted various levels of manufacturing and academic research in close cooperation with famous universities, colleges and institutions in the People's Republic of China ("PRC"). Through relevant platforms, the Group has taken up 20 state and provincial level technology projects and achieved a series of breakthroughs and results, especially for the new drug, "Hongzhu Capsule" (紅珠膠囊), in which the Group possesses proprietary intellectual property and has obtained clinical approval from the state.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGIES

Capturing the huge potential of China's pharmaceutical market

Following the outbreak of a number of new influenzas in recent years, people's awareness of health and hygiene has been aroused. This together with a gradual aging population has been driving up the demand for medical and health products, which provides the pharmaceutical sector in the PRC with new opportunities. In March 2009, the State Council approved a new medical reform proposal: government, at various levels, will invest a total of RMB850 billion in the next three years to push forward the establishment of a basic medical security system, establish a national essential drugs system, improve the primary medical and health services system and procure the gradual equalization of basic public health services, ensuring the smooth progress of medical and health system reform.

Essential drugs to be an important growing point in the pharmaceutical market of the PRC

On 18 August 2009, the State Council of the PRC released documents titled "Guidelines on the Implementation of the National List of Essential Drugs System" (關於建立國家基本藥物制度的實施意見), "the Provisional Measures on the Administration of National List of Essential Drugs" (國家基本藥物目錄管理辦法 (暫行)) and "the National List of Essential Drugs (Catalog for the Basic Healthcare Institutions) (2009 version)" (國家基本藥物目錄 (基層醫療衛生機構配備使用部份) (2009年版)) (the "National Essential Drugs List"), marking the establishment of a national list of essential drugs system. The implementation of this new medical reform plan will certainly create new directions for the development of the pharmaceutical sector of the PRC. According to the essential drugs system initiated this year, one third of the country's government operated basic healthcare institutions will implement the National Essential Drugs List by year end of 2009, and a basically full coverage is to be achieved within 3 years. This is a positive factor for pharmaceutical related enterprises to increase sales and income sources. Furthermore, all types of drugs in the National Essential Drugs List will be included in the National Basic Medical Insurance and Work Injury Insurance Medicine List ("Medical Insurance List"). As the proportion of medical insurance claims for such medicines being obviously higher than other non-essential medicines, the lower consumer expenditure will effectively drive the demand for medicines and in turn further expand the volume of the main pharmaceutical market, providing opportunity for achieving new growth in the sector.

Possesses a big list of the Group's products included in the Essential List

The latest National Essential Drugs List covers 307 medicines, of which 205 are chemical preparation and 102 are Chinese patent medicines. 4 subsidiaries of the Group have a total of 64 medicines included in the National Essential Drugs List, indicating that the Group's products are highly recognized by the government in terms of quality and price. Furthermore, the Group's two country-wide well known proprietary Chinese medicines – “Yupingfeng Granule” (玉屏風顆粒) and “Biyankang” (鼻炎康) are listed in the National Essential List as exclusive product of Chinese patent medicine. Since the government encourages the use of medicines in the National Essential Drugs List, it is expected that the demand for our proprietary prescription product from the basic pharmaceutical market will increase.

More stringent regulation to provide consolidation opportunities in the sector

The PRC government also promulgated the Food Safety Law of the People's Republic of China in February 2009, strengthening the regulation of food and medicine production in the PRC. The pharmaceutical sector has been progressing towards standardization and focusing on quality and safety of medicines with a view to promote a healthy development in the sector. The implementation of the new version of “Review and Assessment Standards for Medicine GMP Certification” (藥品GMP認證檢查評定標準) and “Emission Standards of Pollutants for Pharmaceutical Manufacturers” (製藥工業污染物排放標準) will eliminate weaker enterprises and provide outstanding pharmaceutical enterprises with more merger and acquisition opportunities.

Integrate resources to increase shareholders' value

In September 2009, in order to reflect the corporate image and identity of being an outstanding pharmaceutical brand, the Group announced that Wing Shan International Limited has officially changed its company name to **Winteam Pharmaceutical Group Limited**. The Group will continue to integrate internal resources, lower production cost, coordinate and consolidate market planning of products, establish an effective market end-point system, enlarge the market size of products generally, and elevate our brand name. In addition, the Group will fully utilise the opportunities provided by the government's pharmaceutical policies, and introduce new products selectively through various means and channels, expand production lines and the number of products, and allocate further resources to R&D to enhance its overall technological standard and increase the value-added of products. The Group will also fully utilize capital activities to extend its pharmaceutical business chain, through upward into bulk medicine, and downward into pharmaceutical commercial circulation area. The Group will aim at cultivating 2 to 3 core products with annual sales exceeding RMB300 million and establish 2 to 3 famous brands and trademarks in the PRC to generate greater value for shareholders.

The Group will implement the following development strategies to achieve higher growth and performance:

1. **Integration of sales channels:** the Group will integrate its sales team and gradually implement a group management approach on its human resources and lower labour and operating cost. It will rapidly uplift its products from regional brands to national brands through enhanced promotional effort with targets of public medical institutions in cities, major OTC end-points and basic medical institutions in rural areas. The Group will focus on the “Step by Step Penetration Program” (“星火燎原計劃”) to expand end market in second-tier and third-tier cities and in rural areas in addition to its existing markets in Southern and Northern China and coastal cities.
2. **Enhancement of brand’s influence:** we will integrate product and brand resources of all subsidiaries under the Group. The Group will consolidate all products rationally and categorize them scientifically. They will also be combined organically with the Group’s brands of “China’s time-honored brand” (“中華老字號”), “Famous trademark of China” (“中國馳名商標”), “Provincial well known trademark” (“省著名商標”), and the “Winteam” brand of its listed company, to enhance the influence of our brands by consolidating resources.
3. **Strengthening of the promotion of core product portfolio:** as the new medical reform of the state further deepens, especially with the release of National Essential Drugs List, the Group will centralize the management of national and regional exclusive products, and more competitive products listed in the National Essential Drugs List to form an effective product portfolio. The Group will rapidly seize market shares through a centralized sales team and the main marketing approach of academic promotions.
4. **Strengthening R&D capability:** the Group’s R&D center will conduct product research and development taking into account of the Group’s development strategies and production technology of its group companies (including development of new products and re-development of existing products). It will strengthen exchange and cooperation with domestic and foreign institutions in the field, adhering to the philosophies of development through technological innovation and achieving quality in accordance with scientifically strict standards, as well as building a team of high caliber staff.
5. **Enhancement of management and quality:** the Group will establish a centralized procurement platform to reduce raw material cost without compromising product quality. A production management center will also be established to coordinate and further integrate production technology, technique research and quality control of the group companies with an aim of enhancing the overall standard in production technology and quality control.
6. **Expand production capacity and strive to become the Top 20 of the country:** the Group will expand its production capacity and selectively launch new products and upgrade its product mix. In addition, the Group will seek merger and acquisition opportunities beneficial to the Group in terms of brand name, sales network, products and R&D. The Group will strive to become one of the Top 20 outstanding pharmaceutical enterprises in the country.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2009, the Group's turnover increased significantly by 39.2% to approximately HK\$317.70 million from HK\$228.19 million for the corresponding period of last year. Such increase was primarily attributable to the consolidation of the results of the two newly acquired operating subsidiaries, Guangdong Medi-World and Luya, from February to June 2009, into the consolidated accounts of the Group, for which contributed approximately HK\$112.22 million to the Group's turnover during the period, representing 35.3% of its total turnover. The other two operating subsidiaries of the Group, Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing"), contributed HK\$205.48 million to its turnover during the period, representing 64.7% of the Group's total turnover.

For the six months ended 30 June 2009, the turnover of the Group's ten major products, including "Biyankang Tablet" (鼻炎康片), "Sheng Tong Ping" (聖通平) and "Yupingfeng Granule" (玉屏風顆粒) amounted to approximately HK\$202.43 million, representing 63.7% of the Group's total turnover.

Cost of Sales and Gross Profit Margin

For the six months ended 30 June 2009, the Group's cost of sales was approximately HK\$170.58 million, representing an increase of approximately 18.6% as compared to HK\$143.87 million for the corresponding period of last year. Direct materials, direct labour and production overhead accounted for approximately 67.2%, 11.8% and 21% of the total cost of sales respectively, as compared to 64.5%, 11.6% and 23.9% for the corresponding period of last year.

For the six months ended 30 June 2009, the Group's gross profit margin was 46.3%, representing a significant increase of 9.3 percentage points from 37% for the corresponding period of last year, which was attributable to the higher gross profit margins of most products of Guangdong Medi-World and Luya as well as the strengthened cost control on medicinal materials and packaging materials in the first half of 2009 by the Group.

Other Revenue and Net Income/(Loss)

For the six months ended 30 June 2009, the Group's other revenue and net income/(loss) was HK\$4.98 million, an increase of 166.3% as compared to HK\$1.87 million for the corresponding period of last year. Such increase was attributable to the significant increase in government grants by HK\$2.59 million to HK\$3.29 million.

Operating costs

For the six months ended 30 June 2009, the overall operating cost of the Group was HK\$92.993 million, representing an increase of approximately 68.8% as compared to HK\$55.078 million for the corresponding period of 2008, which was mainly attributable to the consolidation of the results into the consolidated accounts of the Group for the newly acquired operating subsidiaries, Guangdong Medi-World and Luya. The percentage of the operating costs to the total turnover is set out in the following table:

	For the six months ended 30 June	
	2009	2008
Selling and distribution costs (%)	19.4	14.8
Administrative expenses (%)	9.9	9.4
Operating costs (%)	29.3	24.2

Selling and Distribution Costs

For the six months ended 30 June 2009, the Group's selling and distribution costs amounted to approximately HK\$61.522 million (30 June 2008: HK\$33.662 million), which mainly consisted of advertising and promotion expenses of approximately HK\$48.405 million, salary expenses of sales and marketing staff and office and rental expenses of approximately HK\$10.387 million and transportation costs of approximately HK\$2.73 million.

The increase in the percentage of selling and distribution costs as compared to the corresponding period of last year was due to the sales of Guangdong Medi-World and Luya being mainly targeting hospitals, for which selling and promotion expenses are higher than the selling expenses of OTC retail sales.

Administrative Expenses

Administrative expenses of the Group for the six months ended 30 June 2009 amounted to HK\$31.471 million (30 June 2008: HK\$21.416 million), the percentage of the administrative expenses approximates to that of the last year. The administrative expenses were mainly comprised of salaries of approximately HK\$8.901 million, depreciation and amortization of approximately HK\$2.64 million and office and rental expenses of HK\$6.923 million.

Profit from Operations

For the six months ended 30 June 2009, the Group's profit from operations was approximately HK\$59.12 million, representing a significant increase of 90% as compared to HK\$31.112 million for the corresponding period of last year, and the operating profit ratio (defined as the profit from operations divided by the total turnover) increased significantly to 18.6% from 13.6% for the corresponding period of last year.

Finance Costs

For the six months ended 30 June 2009, the Group's finance costs amounted to HK\$2.607 million (30 June 2008: HK\$0.737 million). Such increase as compared to the corresponding period of last year was attributable to the acquisition of operating subsidiaries – Guangdong Medi-World and Luya, which resulted in the Group's bank loans increased to HK\$106.52 million (31 December 2008: HK\$18.19 million). The interest rate for the loans ranged from 5.31% to 8.715% (31 December 2008: 7.84%).

Income tax

For the six months ended 30 June 2009, the Group's income tax was approximately HK\$12.636 million (30 June 2008: HK\$9.961 million). Such increase as compared to the corresponding period of last year was attributable to the newly acquired operating subsidiaries – Guangdong Medi-World and Luya. The income tax rate for Luya, the Group's operating subsidiary, is 25%, and the other subsidiaries, Feng Liao Xing, Dezhong and Guangdong Medi-World were recognized as advanced and new technology enterprises, and enjoy a preferential tax rate of 15% accordingly.

Profit Attributable to the Equity Shareholders of the Company

For the six months ended 30 June 2009, the profit attributable to the equity shareholders of the Company increased significantly by 271.7% to HK\$29.257 million, and the net profit margin (defined as profit attributable to the equity holder of the Company divided by the total turnover) rose significantly to 9.2% from 3.4% for the corresponding period of last year.

Liquidity and Financial Resources

As at 30 June 2009, the Group's current assets amounted to HK\$443.62 million (31 December 2008: HK\$309.64 million), including cash and cash equivalents of HK\$154.67 million (31 December 2008: HK\$155.72 million). Current liabilities amounted to HK\$241.83 million (31 December 2008: HK\$120.53 million). Net current assets aggregated to HK\$201.79 million (31 December 2008: HK\$189.11 million). The Group's current ratio decreased from 2.57 as at 31 December 2008 to 1.83, which was attributable to the bank loans of the newly acquired operating subsidiaries – Guangdong Medi-World and Luya resulted in the higher current liabilities, and an increase of 10.8% in the gearing ratio to 15.9%.

Bank Loans and Charge on Group Assets

As at 30 June 2009, the balance of the Group's bank loan of HK\$106.52 million of which HK\$88.35 million was secured by charge on the Group's assets.

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2009 (31 December 2008: Nil).

Exchange Rate Risk

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

Employees and Remuneration Policies

As at 30 June 2009, the Group employed a total of 1,828 (30 June 2008: 937) staffs including the directors of the Company. Remuneration packages principally comprised of salary, discretionary performance bonus based on individual merits and share option scheme. The Group's total employee remuneration for the year was approximately HK\$46.44 million (30 June 2008: HK\$30.48 million).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

CODE OF CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2009 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.

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

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

The name of the Company has been changed from “WING SHAN INTERNATIONAL LIMITED 榮山國際有限公司” to “WINTEAM PHARMACEUTICAL GROUP LIMITED 盈天醫藥集團有限公司” with effect from 4 September 2009.

The stock short name for trading in the shares of the Company on The Stock Exchange of Hong Kong Limited has also been changed from “WING SHAN INT’L 榮山國際” to “WINTEAM PHARMA 盈天醫藥”.

Further details are set out in the announcement of the Company dated 11 September 2009.

CHANGE OF COMPANY WEBSITE

The website of the Company will be changed to www.winteamgroup.com with effect from 30 September 2009.

INTERIM RESULTS

The Board of the Company announces that the unaudited consolidated interim results of the Group for the six months ended 30 June 2009 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 – Unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2009	2008
	<i>Note</i>	\$'000	\$'000
Turnover	3	317,704	228,192
Cost of sales		(170,575)	(143,871)
Gross profit		147,129	84,321
Other revenue	4	4,966	1,898
Other net income/(loss)	4	18	(29)
Selling and distribution costs		(61,522)	(33,662)
Administrative expenses		(31,471)	(21,416)
Profit from operations		59,120	31,112
Finance costs	5(a)	(2,607)	(737)
Profit before taxation	5	56,513	30,375
Income tax	6	(12,636)	(9,961)
Profit for the period		43,877	20,414
Other comprehensive income for the period, net of tax			
Exchange differences on translation of financial statements of overseas subsidiaries		3,712	31,281
Available-for-sale securities: net movement in fair value reserve		305	(555)
		4,017	30,726
Total comprehensive income for the period		47,894	51,140

		Six months ended 30 June	
		2009	2008
	<i>Note</i>	\$'000	\$'000
Profit attributable to:			
– Equity shareholders of the Company		29,257	7,871
– Minority interests		14,620	12,543
Profit for the period		43,877	20,414
Total comprehensive income attributable to:			
– Equity shareholders of the Company		33,365	27,817
– Minority interests		14,529	23,323
Total comprehensive income for the period		47,894	51,140
Earnings per share (HKD)			
Basic	7	1.99 cents	0.95 cents
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

At 30 June 2009 – Unaudited

(Expressed in Hong Kong dollars)

		At 30 June 2009 \$'000	At 31 December 2008 (audited) \$'000
	Note		
Non-current assets			
Fixed assets			
– Property, plant and equipment		218,658	135,763
– Investment properties		9,033	8,165
– Interests in leasehold land held for own use under operating leases		93,563	26,305
		321,254	170,233
Construction in progress		47,918	1,364
Intangible assets		147,781	78,706
Goodwill		183,399	141,037
Other financial assets		4,582	2,743
		704,934	394,083
Current assets			
Inventories		111,478	82,457
Trade and other receivables	8	171,933	68,490
Amount due from a related company		397	–
Tax recoverable		3,612	1,440
Restricted deposits		1,527	1,529
Cash and cash equivalents		154,673	155,722
		443,620	309,638

		At 30 June 2009 \$'000	At 31 December 2008 (audited) \$'000
	Note		
Current liabilities			
Trade and other payables	9	132,891	102,339
Bank loans		106,520	18,190
Amount due to a director		11	—
Tax payable		2,403	—
		<u>241,825</u>	<u>120,529</u>
Net current assets		<u>201,795</u>	<u>189,109</u>
Total assets less current liabilities		<u>906,729</u>	<u>583,192</u>
Non-current liabilities			
Deferred income on government grants		9,735	—
Deferred tax liabilities		50,929	28,078
		<u>60,664</u>	<u>28,078</u>
Net assets		<u>846,065</u>	<u>555,114</u>
Capital and reserves			
Share capital	10	162,841	83,097
Reserves		507,380	276,207
Total equity attributable to equity shareholders of the Company		<u>670,221</u>	<u>359,304</u>
Minority interests		<u>175,844</u>	<u>195,810</u>
Total equity		<u>846,065</u>	<u>555,114</u>

NOTES

(Expressed in Hong Kong dollars)

1. Basis of preparation

The 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 17 September 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The 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.

2. Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations 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 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments

The Improvements to HKFRSs (2008) has had no material impact on the Group’s financial statements as the amendments are consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s most senior executive management. The Group operates in a single business segment, which is manufacturing and sale of pharmaceutical products including pills and tablets, medicine wine, injections, paste, granules and others in the PRC. Accordingly, no segmental analysis is presented.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any of the periods presented.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognized as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognized in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognizing the dividend income in the profit or loss, the Company would recognize an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3. Turnover

The principal activities of the Group are the 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.

Turnover may be analyzed as follows:

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Sale of pharmaceutical products		
– Pills and tablets	200,651	162,982
– Medicine wine	21,244	17,412
– Injections	29,132	–
– Paste, granules and others	66,677	47,798
	317,704	228,192

4. Other revenue and net income/(loss)

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Other revenue		
Dividend income from unlisted securities	130	—
Rental income	508	599
Government grants	3,289	704
Interest income	587	595
Others	452	—
	<u>4,966</u>	<u>1,898</u>
Other net income/(loss)		
Loss on disposal of fixed assets	(9)	(15)
Others	27	(14)
	<u>18</u>	<u>(29)</u>

5. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	<u>2,607</u>	<u>737</u>
(b) Other items		
Cost of inventories	170,575	143,871
Depreciation and amortization		
– assets held for use under operating leases	553	144
– lease prepayments	608	307
– other assets	12,247	9,305
– intangible assets	11,022	7,712
Impairment losses for trade receivables	766	1,437
Operating lease charges on buildings	186	182
Research and development costs	<u>4,113</u>	<u>1,250</u>

6. Income tax in consolidated income statement

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
Current tax		
PRC income tax for the period	14,330	11,388
Under-provision in respect of prior years	401	432
	<u>14,731</u>	<u>11,820</u>
Deferred tax		
Origination and reversal of temporary differences	(2,095)	(1,859)
	<u>12,636</u>	<u>9,961</u>

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 2009.

Pursuant to the Corporate Income Tax Law of the PRC, the statutory income tax rate applicable to the Group's PRC subsidiary, Luya was 25% for the six months ended 30 June 2009.

In accordance with the relevant PRC income tax laws, regulations and implementation guidance note, Feng Liao Xing, Dezhong and Guangdong Medi-World are recognized as advanced and new technology enterprises and are entitled to tax concessions whereby their profits are taxed at preferential income tax rate of 15% for the six months ended 30 June 2009.

In addition, the gross amount of dividends received by the Company from its PRC subsidiaries in respect of their profits generated after 31 December 2007 is subject to withholding tax at a rate of 5%. Deferred tax liabilities have been recognized for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated after 31 December 2007.

7. 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 \$29,257,000 (six months ended 30 June 2008: \$7,871,000) and the weighted average of 1,469,804,640 ordinary shares (six months ended 30 June 2008: 830,974,244) 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.

8. Trade and other receivables

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

	At 30 June 2009 \$'000	At 31 December 2008 (audited) \$'000
Within 3 months of invoice date	128,878	41,651
3 to 6 months after invoice date	17,597	6,715
More than 6 months after invoice date	13,513	4,599
Trade and bills receivables	159,988	52,965
Less: allowance for doubtful debts	(8,278)	(2,647)
Deposits, prepayments and other receivables	20,223	18,172
	171,933	68,490

Debts are due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

9. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2009 \$'000	At 31 December 2008 (audited) \$'000
Due within 1 month or on demand	53,413	20,150
Trade creditors	53,413	20,150
Other creditors and accrued charges	73,310	78,143
Advances received from customers	6,168	4,046
	132,891	102,339

10. Capital, reserves and dividends

(a) Share capital

	At 30 June 2009		At 31 December 2008	
	Number of shares	Nominal value	Number of shares (audited)	Nominal value (audited)
	'000	\$'000	'000	\$'000
<i>Authorized:</i>				
Share of \$0.10 each	<u>3,000,000</u>	<u>300,000</u>	<u>3,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>				
At 1 January	830,974	83,097	830,974	83,097
Consideration shares issued upon the acquisition of subsidiaries (note (i))	564,103	56,410	—	—
Placing of new shares (note (ii))	<u>233,334</u>	<u>23,334</u>	<u>—</u>	<u>—</u>
At 30 June 2009/31 December 2008	<u>1,628,411</u>	<u>162,841</u>	<u>830,974</u>	<u>83,097</u>

- (i) On 6 February 2009, the Company allotted and issued 564,102,563 ordinary shares of \$0.10 each at the issue price of \$0.39 per share to settle the consideration for the acquisition of the entire equity interest in a subsidiary. Details of the acquisition are set out in note 11.
- (ii) On 6 February 2009, the Company allotted and issued 233,334,000 ordinary shares of \$0.10 each by way of share placement at \$0.30 per share for cash.

(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 2009 (six months ended 30 June 2008: 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	
	2009	2008
	\$'000	\$'000
Final dividend in respect of the previous financial year approved and paid during the following interim period, of HK0.7 cent per ordinary share (six months ended 30 June 2008: HK0.5 cent per ordinary share)	<u>11,399</u>	<u>4,155</u>

11. Acquisition of subsidiaries

On 6 February 2009, the Company acquired the entire equity interest in Smartpoint. Smartpoint is an investment holding company and its principal assets are its 100% equity interests in each of Guangdong Medi-World and Luya. Each of Guangdong Medi-World and Luya is principally engaged in the manufacture and sale of pharmaceutical products in the PRC.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Fixed assets	81,517	42,981	124,498
Construction in progress	67,282	—	67,282
Intangible assets	3,972	75,077	79,049
Other financial assets	1,458	—	1,458
Deferred tax assets	5,972	—	5,972
Inventories	23,123	4,966	28,089
Trade and other receivables	93,534	—	93,534
Tax recoverable	2,924	—	2,924
Cash and cash equivalents	22,749	—	22,749
Trade and other payables	(30,299)	—	(30,299)
Bank loans	(87,105)	—	(87,105)
Deferred income on government grants	(13,561)	—	(13,561)
Deferred tax liabilities	(1,346)	(29,212)	(30,558)
	<u>170,220</u>	<u>93,812</u>	264,032
Net identifiable assets			
Add: Goodwill on acquisition			41,941
Consideration (note (a))			<u>305,973</u>
Satisfied by:			
Issue of consideration shares (note (b))			220,000
Cash			85,973
			<u>305,973</u>

Notes:

(a) The consideration includes legal and professional fees of \$5,973,000.

(b) The fair value of the shares issued was based on the published share price (6 February 2009).

- (c) The acquired subsidiaries contributed turnover of \$112,221,000 and net profit of \$18,622,000 to the Group during the period. If the acquisition had occurred on 1 January 2009, management estimates that the consolidated turnover would have been \$335,366,000 and the consolidated net profit for the period would have been \$47,993,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.
- (d) Pursuant to the sale and purchase agreement dated 29 November 2008 between the Group and the vendor, the consideration for acquisition of Smartpoint is subject to downward adjustment, whereby the vendor shall return the Company a cash amount (the “Return Amount”) if the audited consolidated net profit after tax generated by Smartpoint and its subsidiaries (“Smartpoint Group”) for the 12 months period ended 30 June 2009 is less than RMB45,000,000 (approximately \$51,102,000) (the “Benchmark Figure”). The Return Amount is equivalent to 6 times of the shortfall in the audited consolidated net profit after tax generated by Smartpoint Group for the 12 months ended 30 June 2009 as against the Benchmark Figure.

The above consideration does not include the downward adjustment as the directors estimated that the audited consolidated net profit after tax generated by Smartpoint Group for the 12 months ended 30 June 2009 will exceed the Benchmark Figure.

12. Non-adjusting post balance sheet event

On 2 July 2009, Guangdong Medi-World entered into a share purchase agreement with the shareholders of Foshan Nanhai Pharmaceutical Group Co. Ltd. (“Nanhai Pharmaceutical Group”) to acquire the entire equity interest of Nanhai Pharmaceutical for a cash consideration of RMB4,000,000 (equivalent to approximately \$4,537,000). Nanhai Pharmaceutical is engaged in the business of sales of traditional Chinese medicines. This transaction has not yet completed at the date of this report. The Group has commenced the process of assessing the financial impact of the above acquisition but is not yet in a position to determine the potential financial impact of the above acquisition on the Group’s results of operations in future periods and financial position at future date.

The seller, Nanhai Pharmaceutical Group is a company controlled by Mr. Yang Bin and Mr. Xu Tiefeng, the directors of the Company and the above acquisition constitutes a discloseable and connected transaction under the Listing Rules. Further details of the acquisition are disclosed in the Company’s announcement dated 2 July 2009.

By Order of the Board
DU Richeng
Chairman

Hong Kong, 17 September 2009

As at the date of this announcement, the Board comprises of 9 directors, of whom Mr. DU Richeng is the non-executive director; Mr. YANG Bin, Mr. XU Tiefeng, Mr. SITU Min and Mr. LI Songquan are the executive directors; and Mr. LO Wing Yat, Mr. PANG Fu Keung, Mr. WANG Bo and Mr. ZHANG Jianhui are the independent non-executive directors.