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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2009	2008	
	HK$'000	*HK$'000*	Change
Turnover	**670,175**	443,533	51.1%
Gross Profit	**322,696**	158,284	103.9%
Profit before taxation	**90,465**	53,405	69.4%
Profit attributable to equity shareholders of the Company	**44,054**	20,330	116.7%
Net cash generated from operating activities	**171,160**	77,630	120.5%
Basic earnings per share *(HK cent)*	**2.82**	2.45	15.1%

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The economic development in China was significantly undermined by the global financial crisis in 2009. However, the pharmaceutical industry managed to maintain high growth. According to the data of the Southern Institute of Medical Economics (南方醫藥經濟研究所) under the State Food and Drug Administration, the total output value of medicines of China in 2009 reached approximately RMB1,023 billion, representing an increase of approximately 18% over 2008. It was mainly attributable to the inelastic demand for medicines and the booming effect brought about to the medicine market by the extension of the coverage of medical insurance.

The Chinese government introduced the New Medical Reform Plan (the "New Medical Reform") in 2009, providing the pharmaceutical industry in China with extensive opportunities for business development. In order to become accustomed to the New Medical Reform, market players of the sector have adjusted themselves in terms of research and development of medicines, production management, product mix and sales and marketing strategies.

Furthermore, the New Medical Reform will also speed up the structural reorganization of the pharmaceutical industry. With reorganizations, mergers and acquisitions exercises, corporations in the industry will be able to strengthen their competitive edge by securing products, brand names, technologies and sales channels, which is an inevitable trend of the industry. The New Medical Reform will help to expand the market and uplift the entry barrier, thus providing ample space for further development of the sector.

BUSINESS REVIEW

Results

During the year under review, Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (the "Group") recorded a significant growth in turnover of approximately 51.1% to approximately HK$670.18 million, as compared with HK$443.53 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 Mediworld Pharmaceutical Co., Ltd. ("Guangdong Medi-World") and Shandong Lukang Pharmaceutical Group Luya Co., Ltd. ("Luya"), for the period between February and December 2009, into the consolidated accounts of the Group. Guangdong Medi-World and Luya contributed approximately HK$258.25 million to the Group's turnover during the period, representing 38.5% of its total turnover. The Group's profit from operations was approximately HK$95.79 million, representing an increase of 74.8% as compared to approximately HK$54.78 million for the corresponding period of last year. The profit attributable to equity shareholders increased significantly by 116.7% to approximately HK$44.05 million. Basic earnings per share were HK cents 2.82, representing an increase of 15.1% as compared to last year.

Since the Group is presently in a crucial stage of business expansion and development, and requires sufficient cash to ensure rapid and sustained development, therefore, the board of directors (the "Board") considered it prudent not to recommend the payment of final dividend for the year ended 31 December 2009.

Enhancement of Core Competitiveness through Acquisitions and Reorganization

In 2009, in order to cope with the State policy of the New Medical Reform, the Group carried out a series of acquisitions to realize its strategy in this respect during the year up to the date of the results announcement. The Group expanded by acquiring important sales and marketing networks and relevant product resources, and its core competitiveness was also strengthened accordingly. As a result, the Group was able to diversify its business from traditional Chinese patent medicines to high-end bio-drugs and chemical drugs, making it an excellent well-rounded pharmaceutical corporation.

During the year under review, the Group completed the acquisition of entire equity interests in Guangdong Medi-world and Luya in February. Each of Guangdong Medi-world and Luya owned a sizable sales team targeting at hospitals as well as an established end-market hospital network and their major products of chemical drugs were Sheng Tong Ping (聖通平) (a medicine for hypertension) and Gaode (高德) (antibiotics) respectively. Currently, a total of 12 products of both companies are included in the "National List of Essential Drugs", of which Yupingfeng Granule (玉平風顆粒) is an exclusive product. Besides, 29 products are named in the "National Medical Insurance List (2009 Version)". Guangdong Medi-world established a post-doctorate research center and a provincial research and development center. In the future, major products of Guangdong Medi-world will still be cardiovascular drugs (namely Sheng Tong Ping) and exclusive Chinese patent medicines (namely Yupingfeng Granule) and the development of which will be focused on controlled-release and sustained-release preparation. In addition, sales and marketing activities will be based on an academic approach by building up and maintaining a network of healthcare and medical experts. Key target markets of the products will be extended from major hospitals in the cities to the basic market, including those in the communities and rural areas. Luya will focus on developing into the characteristic manufacturing base for antibiotics, and striving to became a leading company in manufacturing Cefodizime Sodium for Injection (注射用頭孢地嗪吶類抗生素). Its products include Gaode (高德) and Sha Pei Lin（沙培林）(which are aiding drugs for malignant tumors), which aim at the hospitals in first-tier and second-tier cities.

The Group also completed the acquisition of entire equity interests in Foshan Nanhai Pharmaceutical Group Medicinal Material Co. Ltd. ("Nanhai Pharmaceutical") in November 2009. Nanhai Pharmaceutical is principally engaged in the business of purchasing traditional Chinese medicines and manufacturing prepared Chinese drug in slices. It holds a production approval for prepared Chinese drug in slices, GSP and GMP certifications and a purchasing approval for medicinal materials. Nanhai Pharmaceutical is expected to serve as the Group's procurement platform of medicinal materials.

In January 2010, the Group announced the acquisition of 93% interests in Foshan City An Ning Company Limited ("An Ning") and the sole asset of An Ning was 49% interests in Foshan Dezhong Pharmaceutical Co. Ltd. ("Dezhong"). Upon completion of the transaction, the shareholding in Dezhong held by the Group will be increased from 51% to 96.57%. Dezhong is a well-known brand name in China and 17 products of Dezhong have been included in the National List of Essential Drugs, of which Biyankang Tablet (鼻炎康片) is an exclusive product. Moreover, 27 products of Dezhong have been added to the National Medical Insurance List (2009 Version), of which three are newly added exclusive products. Dezhong holds eight National Protected Traditional Chinese Medicine Products (國家中藥保護品種) and owns the technical skills for the production of double-layered tablets for ensuring efficacy of medicines. In the future, the major product of Dezhong will still be Biyankang Tablet (鼻炎康片) and the development of which will be focused on exclusive OTC products and prescription medicines. With respect to sales activities, an OTC end-market sales team will be established to deal with well-defined and segmented end-markets of product sales. Also, the market recognition of the brand name will be enhanced by advertisements in the mass media. The Group has positioned Dezhong as a leading and modernized domestic Chinese medicine enterprise specialized in the production of medicines for rhinitis and other diseases of the respiratory system.

Market Competitiveness of the Group's Core Products

Through the acquisitions and the increase in product categories, 64 products of the Group's subsidiaries were included in the "National List of Essential Drugs" and more than 120 products were added to the "Medical Insurance List (2009 Version)". The product numbers of the Group with sales exceeding HK$30 million increased from two in 2008 to six in 2009. These core products are important to the Group and are influential in their respective segmented markets.

Biyankang Tablet (鼻炎康片), Sheng Tong Ping (Nifedipine Sustained-release Tablet) (聖通平), Feng Liao Xing Rheumatism Medical Wine (馮了性風濕跌打藥酒), Gaode (高德) (Cefodizime Sodium for Injection), VC Yin Qiao Tablet 維C銀翹片) and Yupingfeng Granule (玉平風顆粒) were the core products of the Group during the year under review. The total turnover of the above 6 products was approximately HK$407.6 million, representing 60.8% of the Group's total turnover.

Internal Resources Consolidation and Structural Reorganization

During the year under review, the Group consolidated its internal resources thoroughly through gradual restructuring of the human resources, product resources and sales resources of each subsidiary. Six management centers were established accordingly, namely the sales and marketing center, the production center, the operation center, the finance center, the human resource center and the research and development center. Meanwhile, the management process has been optimized to reduce costs in this respect. Also, the market admission department was set up to maintain and strengthen the relationship between the Group and government authorities.

In addition, in order to fully reflect the Group's reputable corporate image as a branded quality medicine manufacturer and to well define our positioning in the market, the Group renamed 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) in September 2009. In 2010, the Group will continue to work on the consolidation issues for placing a solid foundation for its marketing activities and quality management.

Full Deployment of Strong Product Mix of the Group

The Group has a strong product line comprised of over 200 products covering Chinese patent medicines, chemical drugs and bio-drugs. These medicines are mainly for 12 clinical diseases, including cardiovascular and cerebrovascular, respiration, gynecology, pediatrics, orthopedics and traumatology, otorhinolaryngology and injuries. As a result, the Group has efficient sales resources in medicines for cardiovascular and respiratory diseases, injuries and pain relieving, and brand names of the Group are influential in these aspects.

During the year under review, the Group initiated the product selection program and professional advisors were engaged to analyze all products of the Group in a scientific and systematic way. Key products for further development were selected according to market potential, market scale, competitive edge and the Group's existing resources for sales and marketing activities, hence, formulated the Group's future planning for products accordingly.

The Group determined the direction of its sales and marketing efforts and resources allocation. Two major project streams were confirmed as follows: (i) prescription medicines targeted at hospitals, including medicines for cardiovascular and cerebrovascular diseases, medicines for diseases of upper respiratory tracts and the digestive system and medicines for gynecology and oncology; and exclusive products to be particularly promoted, including Rujiekang Tablet (乳結康片), Gankangda Tablet (肝達康片) and Weipixiao Granule (胃痞消顆粒); (ii) OTC products targeted at retail points at drug stores, including medicines for diseases of upper respiratory tracts, allergy and dermatology and external pain relievers; and exclusive products to be particularly promoted, including Fu Fang Zhen Zhu Pimple Tablet (複方珍珠暗瘡片), Yao Shen Herbal Plaster (腰腎膏) and Shaolin Dieda Herbal Plaster (少林跌打止痛膏).

Integration and Establishment of Nationwide Sales and Marketing Network

Each subsidiary of the Group has got its dominant sales and marketing network and a sales and marketing team of its own. During the year under review, the Group integrated these networks and related teams according to the results of the product selection for resources sharing. Consequently, the management efficiency was upgraded and the pace of response to the ever changing market was expedited, thereby fortifying the establishment of a remarkable sales and marketing platform for the rapid development of the Group.

Since the Group's products were mainly branded essential medicines targeted at the basic market, it enhanced strategic co-operation with sizable chain stores and distributors of medicines during the year under review for building a comprehensive sales network covering the entire State. As a result, the Group's strategic planning of extending the coverage of its major products to OTC retail points as well as the basic market of communities and rural areas was being realized step by step. With the product coverage and the market recognition and reputation of our brand name, the Group's control over the end-market and its ability to cope with uncertainties were highly strengthened.

RESEARCH AND DEVELOPMENT

During the year under review, the Group delivered promising achievements in respect of research and development, including 1 new medicine certificate, 3 production approvals and 2 clinical research approvals. To be specific, a new medicine with intellectual property rights and under category 6 and named Weipixiao Granule (胃痞消顆粒) (a medicine for chronic gastritis or chronic gastratrophia) was granted a new medicine certificate and a production approval; a new medicine for pimples named Viaminate and Vitamin E Gel (維胺酯維E凝膠) and a non-prescription medicine for protecting the gastric mucosa named Colloidal Bismuth Pectin Capsule (膠體果膠鉍膠囊) were also granted production approvals respectively; a controlled-release medicine for hypertension named Nifedipine Controlled-release Tablet (硝苯地平控釋片) and Waishang Ruyi Gel (外傷如意凝膠) were granted an approval for clinical research respectively. In addition, two medicines for gastric diseases were also granted invention patents together with six patents for appearance design in total.

The Group initiated three clinical research projects for new medicines, namely Nifedipine Controlled-release Tablets (硝苯地平控釋片), Trimebutine Sustained-release Tablets (曲美布汀緩釋片) (a new bowel movement regulator) and Artemether Xureqing Granule (蒿甲虛熱清顆粒) (a new Chinese medicine under category 6 for relieving internal heat and nourishing). The clinical test on Artemether Xureqing granules was basically completed .

In connection with projects on new technologies, the Group participated in several research and development projects regarding: the efficacy of the substance base of Yupingfeng Granule (玉屏風顆粒), a new anti-depressant extracted from leaves of panax pseudoginseng, a new medicine under category 1 named Polydatin Tablet (白藜蘆醇苷及片劑) for Parkinson's disease, a new medicine under category 6 named Yaotongkang Granule (腰痛康顆粒), the re-development of Feng Liao Xing Rheumatism Medicine Wine (馮了性風濕跌打藥酒)-cataplasm (transdermal patch) and the redevelopment of Jie Hong Dieda Tincture (竭紅跌打酊) – cataplasm. These projects are well on track as scheduled. In the future, the Group's efforts in research and development activities will be concentrated on "consolidation, upgrading and development" as stated in the three-year plan. Special attention will be paid to the preparation of modern medicines, the re-development of Chinese medicines and the development of innovative medicines, and medicines for cardiovascular and cerebrovascular diseases, diseases of respiratory and neurological systems, rheumatic diseases, tumors and anti-infection will be the main focus. The Group will plan its product line for the following 3 to 5 years according to the development mentioned above. The Group will set up a research and development center to concentrate its resources for central planning and management and to broaden the scope of co-operation with universities and scientific research institutes. All these aim at laying a solid ground for the establishment of a new medicine research institute.

OUTLOOK AND DEVELOPMENT STRATEGY

The New Medical Reform in China will bring about drastic changes as well as invaluable business opportunities to the pharmaceutical industry. Pharmaceutical companies, especially those producing essential medicines, will benefit from the government's increased spending in fundamental public medical healthcare services and its initiatives to enlarge the coverage of medical insurance. Since about half of the medicines stated in the "National Essential Drugs List" are Chinese medicines, with the strong support to the development of the Chinese medicine industry from the State, manufacturers of Chinese medicines will be able to capitalize on this trend. In response to the ever improving living standard of people and the aging population in China, there will be enormous demand for medical healthcare services in China .

However, with amendments to GMP and GSP in China during these years, the regulation of the industry has become more stringent, thus upgrading the quality of medicines and setting higher standard for pharmaceutical companies. Due to the continuous consolidation of the pharmaceutical industry, entry barrier of the sector will be uplifted, thereby eliminating manufacturers with less competency.

2010 is the first year of the New Medical Reform as well as the starting point of the Group's three-year plan. The Group will implement the following business strategies in an effective way so as to strengthen our three vital capability in operations, including: (i) research and innovation; (ii) product quality; and (iii) sales and marketing. With the strengths mentioned above, we will be able to deliver promising growth and enjoy cost effectiveness in the ever changing pharmaceutical market .

1 **Integration of sales channels:** the Group will continue to integrate its sales team and will gradually adopt a centralized approach for corporation management to consolidate human resources and lower labor costs. It will rapidly uplift its products from regional to national brands through enhanced promotional efforts targeting at public medical institutions in cities, major OTC end-markets 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 the end-markets in second-tier and third-tier cities and rural areas, in addition to its existing markets in southern and northern China and coastal cities.

2 **Enhancement of brand influence:** the Group will integrate product and brand resources of all its subsidiaries for the purpose of rational selection and scientific categorization of all our products. They will also be combined with the Group's brands honored with 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 in an organic way to enhance the influence of our brands by resources consolidation.

3 **Strengthening promotion of core product portfolio:** as the New Medical Reform of the State advances further, the Group will centralize the management of its national and regional exclusive products and products with stronger competitive edges listed in the National Essential Drugs List and 2009 Medical Insurance List to fortify a highly efficient product portfolio. The Group will rapidly seize market shares through a centralized sales team and marketing approach focusing on academic aspects.

4 **Strengthening research and development capability:** the Group will increase its investment in research and development and set up a unified research and development center, making use of production technologies of its subsidiaries with reference to the Group's development strategies. Product research and development will include the development of new products and re-development of existing products. It will strengthen the exchange and co-operation with domestic and foreign institutions in the field, adhere to the philosophy of development through technological innovation and the thought of manufacturing quality products in compliance with stringent scientific standards, as well as setting up a staff team of high caliber.

5 **Enhancement of management and quality:** the Group will set up a production management center to coordinate and further integrate all aspects related to production technologies, technical research and quality control of all companies within the Group, aiming at uplifting the overall standard in production technologies and quality control.

6 **Expansion of production capacity and seeking the merger and acquisition opportunities:** the Group will set up an advanced production base in China for processing and extracting Chinese medicines to expand its production capacity, and will also launch selected new products, particularly high-end products and those with discretionary pricing rights, for upgrading its product mix. In addition, the Group will identify merger and acquisition opportunities beneficial to the Group in terms of brand name, sales network, products and research and development in order to strive for a ranking amongst the well-known and influential pharmaceutical enterprises in China.

FINANCIAL REVIEW

Sales

For the year ended 31 December 2009, the Group's turnover increased significantly by 51.1% to approximately HK$670.18 million from approximately HK$443.53 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, for the period between February and December 2009, into the consolidated accounts of the Group. Guangdong Medi-World and Luya contributed approximately HK$258.25 million to the Group's turnover during the period, representing 38.5% of its total turnover.

Cost of Sales and Gross Profit Margin

For the year ended 31 December 2009, the Group's cost of sales was approximately HK$347.48 million, representing an increase of 21.8% as compared to approximately HK$285.25 million for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 63.1%, 12.0% and 24.9% of the total cost of sales respectively, as compared to 64.5%, 12.4% and 23.1% for the corresponding period of last year. For the year ended 31 December 2009, the Group's gross profit margin was approximately 48.2%, representing a significant increase of 12.5 percentage points as compared to 35.7% for the corresponding period of last year. Such increase was attributable to the higher gross profit margins of most products of Guangdong Medi-World and Luya as well as the strengthened cost control measures on medicinal and packaging materials implemented by the Group in 2009.

Other Revenue and Net Income/(Loss)

For the year ended 31 December 2009, the Group's other revenue and net income/(loss) was approximately HK$13.19 million, representing an increase of 164.9% as compared to HK$4.98 million of last year. Such increase was attributable to the significant increase in government grants by HK$7.72 million to approximately HK$9.35 million.

Operating Costs

For the year ended 31 December 2009, the overall operating cost of the Group was approximately HK$240.1 million, representing an increase of approximately 121.3% as compared to HK$108.48 million for the corresponding period of 2008. Such increase was mainly attributable to the consolidation of the results of the newly acquired operating subsidiaries, Guangdong Medi-World and Luya, into the consolidated accounts of the Group.

Selling and Distribution Costs

For the year ended 31 December 2009, the Group's selling and distribution costs amounted to approximately HK$161.62 million (31 December 2008: HK$66.24 million), which mainly consisted of advertising and promotion expenses of approximately HK$100.09 million, salary expenses of sales and marketing staff of HK$20.701 million, transportation costs of approximately HK$6.73 million and other cost of sales of approximately HK$34.10 million. The increase in the percentage of selling and distribution costs as compared to last year was due to the fact that sales of Guangdong Medi-World and Luya had been targeted at hospitals, for which selling and promotion expenses were slightly higher than those incurred in OTC retail sales.

Administrative Expenses

Administrative expenses of the Group for the year ended 31 December 2009 amounted to approximately HK$78.47 million (31 December 2008: HK$42.25 million). The administrative expenses were mainly comprised of salaries of approximately HK$33.71 million, depreciation and amortization of approximately HK$5.77 million, expenses for product research and development of approximately HK$11.85 million and office rental and other expenses of approximately HK$27.14 million.

Profit from Operations

For the year ended 31 December 2009, the Group's profit from operations was approximately HK$95.79 million, representing a significant increase of 74.8% as compared to approximately HK$54.78 million for last year; and the operating profit ratio (defined as the profit from operations divided by the total turnover) increased to 14.3% from 12.4% for last year.

Finance Costs

For the year ended 31 December 2009, the Group's finance costs amounted to approximately HK$5.32 million (31 December 2008: HK$1.38 million). Such increase as compared to the last year was attributable to the acquisition of operating subsidiaries – Guangdong Medi-World and Luya, which increased the Group's bank loans to approximately HK$84.04 million (31 December 2008: HK$18.19 million). The effective interest rate for the loans was 5.6% (31 December 2008: 7.84%).

Income Tax

For the year ended 31 December 2009, the Group's income tax was approximately HK$22.24 million (31 December 2008: HK$4.94 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, was 25%. Other operating subsidiaries, namely Foshan Feng Liao Xing Pharmaceutical Co. Ltd. ("Feng Liao Xing"), Dezhong and Guangdong Medi-World, were recognized as advanced and new technology enterprises, and enjoyed a preferential tax rate of 15% accordingly.

Profit Attributable to Equity Shareholders

For the year ended 31 December 2009, the profit attributable to equity shareholders of the Company increased significantly by 116.7% to approximately HK$44.05 million, and the net profit margin (defined as the profit attributable to equity holders of the Company divided by the total turnover) rose to 6.6% from 4.6% for last year.

Liquidity and Financial Resources

As at 31 December 2009, the Group's current assets amounted to approximately HK$508.25 million (31 December 2008: HK$309.64 million), including cash and cash equivalents of HK$233.5 million (31 December 2008: HK$155.72 million). Current liabilities amounted to approximately HK$268.18 million (31 December 2008: HK$120.53 million). Net current assets aggregated to approximately HK$240.07 million (31 December 2008: HK$189.11 million). The Group's current ratio decreased from 2.57 as at 31 December 2008 to 1.9. The reason for such decrease was due to the bank loans of the newly acquired operating subsidiaries-Guangdong Medi-World and Luya, which brought about higher current liabilities and an increase in the gearing ratio (defined as the bank loans divided by the interests attributable to equity shareholders of the Company) from 5.1% for 2008 to 12.2%.

Bank Loans and Pledge of Assets

As at 31 December 2009, the balance of the Group's bank loan was approximately HK$84.04 million (31 December 2008: HK$18.19 million), of which approximately HK$59.51 million (31 December 2008: Nil) was secured by pledging the Group's assets.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 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 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 so that no financial instrument has been used for the purpose of hedging exchange rate risks.

Employee and Remuneration Policies

As at 31 December 2009, the Group employed a total of approximately 2,350 (31 December 2008: 969) staff members, including directors of the Company, of which the number of sales staff, production staff and those engaged in research and development, operation and administration and senior management were approximately 860, 1,150 and 340 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$100.30 million (31 December 2008: HK$65.01 million).

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: HK0.7 cent per ordinary share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 June 2010 to Tuesday, 22 June 2010, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to determine the identity of the shareholders who are entitled to attend and vote at the annual general meeting of the Company to be held on 22 June 2010, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 14 June 2010.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2009.

Due to the resignation of Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph on 21 January 2009 and 24 March 2009 respectively, the number of independent non-executive directors and members of the audit committee of the Company fell below the minimum number as required under Rule 3.10 and Rule 3.21 of the Listing Rules. In compliance with the requirements of the Listing Rules, the Board appointed Mr. PANG Fu Keung and Mr. ZHANG Jianhui as the independent non-executive directors to fill the vacancy on 11 February 2009 and 10 June 2009 respectively.

AUDIT COMMITTEE

The Company's audit committee has met with the Group's senior management and the auditors to review the financial statements for the year ended 31 December 2009.

The Board of the Company announces that the consolidated results of the Group for the year ended 31 December 2009 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	**2009**	2008
		$'000	*$'000*
Turnover	*2*	**670,175**	443,533
Cost of sales		**(347,479)**	(285,249)
Gross profit		**322,696**	158,284
Other revenue	*3*	**12,004**	4,233
Other net income	*3*	**1,184**	748
Selling and distribution costs		**(161,625)**	(66,237)
Administrative expenses		**(78,473)**	(42,245)
Profit from operations		**95,786**	54,783
Finance costs		**(5,321)**	(1,378)
Profit before taxation	*4*	**90,465**	53,405
Income tax	*5*	**(22,239)**	(4,938)
Profit for the year		**68,226**	48,467
Attributable to:			
Equity shareholders of the Company		**44,054**	20,330
Minority interests		**24,172**	28,137
Profit for the year		**68,226**	48,467
Earnings per share	*7*		
Basic		**2.82 cents**	2.45 cents
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Expressed in Hong Kong dollars)

	2009 $'000	2008 $'000
Profit for the year	**68,226**	48,467
Other comprehensive income for the year, net of tax		
Exchange differences on translation of financial statements of overseas subsidiaries	**4,109**	29,533
Available-for-sale securities: net movement in fair value reserve	**1,358**	(587)
	5,467	28,946
Total comprehensive income for the year	**73,693**	77,413
Total comprehensive income attributable to:		
Equity shareholders of the Company	**49,258**	38,804
Minority interests	**24,435**	38,609
Total comprehensive income for the year	**73,693**	77,413

CONSOLIDATED BALANCE SHEET

At 31 December 2009

(Expressed in Hong Kong dollars)

	Note	**2009**	2008
		$'000	*$'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment		**247,352**	135,763
– Investment properties		**7,305**	8,165
– Interests in leasehold land held for own use under operating leases		**92,438**	26,305
		347,095	170,233
Construction in progress		**14,396**	1,364
Intangible assets		**135,127**	78,706
Goodwill		**186,197**	141,037
Other financial assets		**5,828**	2,743
Deferred tax assets		**6,045**	–
		694,688	394,083
Current assets			
Inventories		**115,041**	82,457
Trade and other receivables	*9*	**159,710**	68,490
Current tax recoverable		**–**	1,440
Restricted deposits		**–**	1,529
Deposits with banks		**22,033**	7,958
Cash and cash equivalents		**211,462**	147,764
		508,246	309,638
Current liabilities			
Trade and other payables	*10*	**169,366**	99,786
Bank loans		**84,042**	18,190
Current tax payable		**8,493**	–
Current portion of deferred government grants		**6,283**	2,553
		268,184	120,529
Net current assets		**240,062**	189,109
Total assets less current liabilities		**934,750**	583,192

CONSOLIDATED BALANCE SHEET (continued)

At 31 December 2009

(Expressed in Hong Kong dollars)

	2009	2008
	$'000	*$'000*
Non-current liabilities		
Deferred tax liabilities	**55,261**	28,078
Deferred government grants	**7,625**	–
	62,886	28,078
NET ASSETS	**871,864**	555,114
CAPITAL AND RESERVES		
Share capital	**162,841**	83,097
Reserves	**523,273**	276,207
Total equity attributable to equity shareholders of the Company	**686,114**	359,304
Minority interests	**185,750**	195,810
TOTAL EQUITY	**871,864**	555,114

NOTES

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2009 but are extracted from those consolidated financial statements.

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption 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

– Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments

– 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

– HKAS 23 (revised 2007), Borrowing costs

The Improvements to HKFRSs (2008) comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. These amendments to HKAS 23 and the improvements to HKFRSs (2008) have no material impact on the Group's financial statements as the amendments are consistent with the accounting policies already adopted by the Group. The impact of the remainder of these developments in the 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, and has resulted in reportable segments being identified and presented (see note 8). Corresponding amounts have been provided on a basis consistent with the revised segment information.

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 income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. 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 period presented.

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised 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 recognised 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 recognising dividend income in profit or loss, the Company would recognise 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.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 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:

	2009	2008
	$'000	*$'000*
Sales of pharmaceutical products		
– Pills and tablets	**351,532**	294,311
– Medicine wine	**53,097**	51,939
– Injections	**74,555**	–
– Paste, granules and others	**190,991**	97,283
	670,175	443,533

3 Other revenue and net income

	2009	2008
	$'000	*$'000*
Other revenue		
Government grants	**9,354**	1,635
Interest income	**1,444**	1,385
Rental income	**1,114**	1,213
Dividend income from unlisted equity securities	**92**	–
	12,004	4,233

	2009	2008
	$'000	*$'000*
Other net income		
Loss on disposal of fixed assets	**(503)**	(45)
Exchange (loss)/gain	**(68)**	794
Others	**1,755**	(1)
	1,184	748

4 Profit before taxation

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

	2009	2008
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**5,321**	1,378
(b) Staff costs:		
Salaries, wages and other benefits	**95,265**	62,655
Contributions to defined contribution retirement plans	**5,037**	2,357
	100,302	65,012
(c) Other items:		
Auditors' remuneration	**1,890**	1,870
Depreciation and amortisation		
– investment properties	**292**	293
– interest in leasehold land held for own use under operating leases	**2,223**	621
– property, plant and equipment	**26,091**	18,649
– intangible assets	**23,567**	15,654
Impairment losses		
– trade receivables	**550**	125
– intangible assets	**–**	1,811
Operating lease charges on buildings	**546**	373
Research and development costs	**11,845**	2,054
Rentals receivable from investment properties less direct outgoings	**(1,114)**	(750)
Cost of inventories	**347,479**	285,249

5 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009	2008
	$'000	*$'000*
Current tax		
PRC enterprise income tax for the year	**25,604**	11,558
Under-provision in respect of prior year	**717**	577
	26,321	12,135
Deferred tax		
Origination and reversal of temporary differences	**(4,082)**	(7,197)
	22,239	4,938

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 year.

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX"), Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were recognized as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for a three-year period with effect from 1 January 2008 pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau. As a result of the change in tax rate to 15% for a three-year period, the change in the carrying amount of the current tax payable and deferred tax liabilities has been reflected in these consolidated financial statements.

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

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009	2008
	$'000	*$'000*
Profit before taxation	**90,465**	53,405
Notional tax on profit before taxation, calculated at rates applicable to profit in the countries concerned	**28,014**	16,007
Tax effect on non-deductible expenses	**924**	1,623
Tax effect on non-taxable revenue	**(984)**	(165)
Effect on opening current and deferred tax balances resulting from the change in tax rate during the year	**–**	(6,422)
Income tax concessions	**(8,636)**	(8,159)
Withholding tax on undistributed profits of PRC subsidiaries	**2,204**	1,477
Under-provision in respect of prior year	**717**	577
Actual tax expense	**22,239**	4,938

6 Dividends

(a) Dividends payable to equity shareholders attributable to the year

	2009	2008
	$'000	*$'000*
Final dividend proposed after the balance sheet date of nil cent per ordinary share (2008: 0.7 cent per ordinary share)	**–**	11,399

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved during the year

	2009	2008
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved during the year, of 0.7 cent per ordinary share (2008: 0.5 cent per ordinary share)	**11,399**	4,155

7 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $44,054,000 (2008: $20,330,000) and the weighted average of 1,561,958,000 (2008: 830,974,000) ordinary shares in issue during the year.

(b) Diluted

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

8 Segment reporting

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

- DZH
- FLX
- Guangdong Medi-World
- Shandong Lukang Pharmaceutical Group Luya Co., Ltd. ("Luya")
- Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical")

(a) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments including depreciation and amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "gross profit of operating segment" i.e. "turnover less cost of sales". Items not specifically attributed to individual segment such as directors' and auditors' remuneration and other head office or administrative expenses are excluded from the calculation of segment profit. The Group's senior executive management is provided with segment information concerning segment revenue and profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

Year ended 31 December 2009

	DZH $'000	FLX $'000	Guangdong Medi-World $'000	LUYA $'000	Nanhai Phar-maceutical $'000	Total $'000
Revenue from external customers	223,470	178,702	186,264	71,988	9,751	670,175
Inter-segment revenue	–	–	–	–	9,616	9,616
Reportable segment revenue	223,470	178,702	186,264	71,988	19,367	679,791
Reportable segment profit	116,601	64,453	135,503	36,531	2,230	355,318

Year ended 31 December 2008

	DZH $'000	FLX $'000	Total $'000
Revenue from external customers	251,366	192,167	443,533
Reportable segment revenue	251,366	192,167	443,533
Reportable segment profit	116,947	61,630	178,577

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

	2009 ***$'000***	2008 *$'000*
Revenue		
Reportable segment revenue	**679,791**	443,533
Elimination of inter-segment revenue	**(9,616)**	–
Consolidated turnover	**670,175**	443,533
Profit		
Reportable segment profit	**355,318**	178,577
Elimination of inter-segment profits	**(1,107)**	–
Reportable segment profit derived from the Group's external customers	**354,211**	178,577
Other revenue and net income	**13,188**	4,981
Selling and distribution costs	**(161,625)**	(66,237)
Administrative expenses	**(78,473)**	(42,245)
Finance costs	**(5,321)**	(1,378)
Unallocated head office and corporate expenses	**(31,515)**	(20,293)
Consolidated profit before taxation	**90,465**	53,405

(c) Geographic information

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

9 Trade and other receivables

	The Group	
	2009	2008
	$'000	*$'000*
Trade and bills receivables	**149,172**	52,965
Less: allowance for doubtful debt	**(8,364)**	(2,647)
	140,808	50,318
Deposits, prepayments and other receivables	**18,902**	18,172
	159,710	68,490

Included in trade and other receivables are trade and bills receivables with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	$'000	*$'000*
Within 3 months of invoice date	**120,040**	41,651
3 to 6 months after invoice date	**16,473**	6,715
More than 6 months after invoice date	**12,659**	4,599
	149,172	52,965

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

10 Trade and other payables

	The Group	
	2009	2008
	$'000	*$'000*
Trade creditors	**63,672**	20,150
Other creditors and accrued charges	**74,427**	55,213
Advances received from customers	**31,267**	24,423
	169,366	99,786

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	$'000	*$'000*
Due within 1 month or on demand	**63,672**	20,150

Other creditors and accrued charges mainly include accrued staff costs and benefits and advertising expenses payable.

All of the trade and other payables are expected to be settled within one year or payable on demand.

11 Non-adjusting post balance sheet events

On 30 January 2010, the Guangdong Medi-World entered into an Acquisition Agreement with the shareholder of Foshan City An Ning Company Limited ("An Ning") pursuant to which Guangdong Medi-World has conditionally agreed to acquire and the shareholder of An Ning has conditionally agreed to sell the 93% equity interest in An Ning at consideration of RMB116 million (equivalent to approximately HK$131.7 million). An Ning's principal asset is the holding of a 49% equity interest in DZH, with the remaining 51% equity interest in DZH indirectly held by the Company.

The transaction has not yet been completed at the date of this announcement. 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. Further details of the acquisition are disclosed in the Company's circular dated 11 March 2010.

By Order of the Board
DU Richeng
Chairman

Hong Kong, 20 April 2010

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