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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board of directors (the "Board") of Winteam Pharmaceutical Group Limited (the "Company") submits the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 as follows:

RESULTS HIGHLIGHTS	**Unaudited Six months ended 30 June**		
	2010	2009	
	HK$'000	*HK$'000*	Change
Turnover	**437,799**	317,704	37.8%
Gross Profit	**240,720**	147,129	63.6%
Profit before taxation	**64,445**	56,513	14.0%
Profit attributable to equity shareholders of the Company	**29,049**	29,257	-0.7%
Net cash generated from operating activities	**69,129**	56,688	21.9%
Earnings per share *(HK cent)*	**1.74**	1.99	-12.6%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010-unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2010 $'000	2009 $'000
Turnover	2	**437,799**	317,704
Cost of sales		**(197,079)**	(170,575)
Gross profit		**240,720**	147,129
Other revenue	3	**8,240**	4,966
Other net income	3	**8,576**	18
Selling and distribution costs		**(148,270)**	(61,522)
Administrative expenses		**(43,218)**	(31,471)
Profit from operations		**66,048**	59,120
Finance costs	4(a)	**(1,603)**	(2,607)
Profit before taxation	4	**64,445**	56,513
Income tax	5	**(16,710)**	(12,636)
Profit for the period		**47,735**	43,877
Other comprehensive income for the period, net of tax			
Exchange differences on translation of financial statements of overseas subsidiaries		**7,931**	3,712
Available-for-sale securities: net movement in fair value reserve	6	**1,218**	305
		9,149	4,017
Total comprehensive income for the period		**56,884**	47,894

	Note	Six months ended 30 June **2010** **$'000**	2009 *$'000*
Profit attributable to:			
– Equity shareholders of the Company		**29,049**	29,257
– Non-controlling interests		**18,686**	14,620
Profit for the period		**47,735**	43,877
Total comprehensive income attributable to:			
– Equity shareholders of the Company		**37,148**	33,365
– Non-controlling interests		**19,736**	14,529
Total comprehensive income for the period		**56,884**	47,894
Earnings per share *(HKD)*	*7*		
Basic		**1.74 cents**	1.99 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
At 30 June 2010-unaudited
(Expressed in Hong Kong dollars)

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

	Note	At 30 June 2010 $'000	At 31 December 2009 $'000
Non-current liabilities			
Deferred tax liabilities		**55,225**	55,261
Deferred government grants		**9,637**	7,625
		64,862	62,886
Net assets		**926,664**	871,864
Capital and reserves	*10*		
Share capital		**178,341**	162,841
Reserves		**662,575**	523,273
Total equity attributable to equity shareholders of the Company		**840,916**	686,114
Non-controlling interests		**85,748**	185,750
Total equity		**926,664**	871,864

NOTES

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

The consolidated results set out in this announcement do not constitute the Group's consolidated interim financial report for the six months ended 30 June 2010 but are extracted from the consolidated interim financial report.

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

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

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

(b) Changes in accounting policies

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

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

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

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

- As a result of the adoption of the amendments to HKAS 27, the acquisition of an additional interest in a non-wholly owned subsidiary will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. During the current period, the Group has acquired an additional 45.57% interest in a non-wholly owned subsidiary.

- The impact of the majority of the revisions to HKFRS 3 and HKFRS 5, and the other revisions to HKAS 27 has not yet had a material effect on this interim financial report as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- As a result of the amendment to HKAS 17, *Leases*, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate and the amendment to HKAS 17 has had no material impact on the Group's interim financial report.

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

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

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

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

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

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

(c) *Basic of preparation of the interim financial report*

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

2 Turnover

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

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

3 Other revenue and net income

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

4 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2010	2009
	$'000	*$'000*
Interest on bank advances and other borrowings wholly repayable within five years	**1,603**	2,607

(b) Other items

	Six months ended 30 June	
	2010	2009
	$'000	*$'000*
Cost of inventories	**197,759**	170,806
Depreciation and amortisation		
– investment properties	**152**	147
– interests in leasehold land under operating leases	**1,048**	1,014
– property, plant and equipment	**13,177**	12,247
– intangible assets	**12,004**	11,022
Impairment losses for trade and other receivables	**1,517**	766
Operating lease charges on buildings	**190**	186
Research and development costs	**8,343**	4,113

5 Income tax in the consolidated statement of comprehensive income

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

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

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

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

6 Other comprehensive income

Available-for-sale securities

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

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 $29,049,000 (six months ended 30 June 2009: $29,257,000) and the weighted average of 1,672,327,000 ordinary shares (six months ended 30 June 2009: 1,469,804,640) in issue during the interim period.

(b) Diluted earnings per share

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

8 Trade and other receivables

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

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

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

9 Trade and other payables

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

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

10 Capital, reserves and dividends

(a) Share capital

On 10 May 2010, the Company allotted and issued 155,000,000 ordinary shares of $0.10 each at the issue price of $0.85 per share. The proceeds were used to settle the consideration for the acquisition of the 93% equity interest in a subsidiary. Details of the acquisition are set out in note 11.

(b) Dividends

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

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

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

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

11 Acquisition of a subsidiary and non-controlling interests

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Performance

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

Business Review

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

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

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

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

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

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

Sales of Products

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost Control

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

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

Integration of Resources

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

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

Research and Development

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

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

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

Acquisitions

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

Material Investments

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

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

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

Future Outlook

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

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

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

FINANCIAL REVIEW

Turnover

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

Cost of Sales and Gross Profit Margin

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

Other Revenue

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

Other Net Income

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

Selling and Distribution Costs

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

Administrative Expenses

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

Profit from Operations

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

Finance Costs

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

Earnings per share

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

Liquidity and Financial Resources

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

Bank Loans and Pledge of Assets

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

Contingent Liabilities

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

Exchange Rate Risk

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

Employee and Remuneration Policies

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

INTERIM DIVIDEND

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

CONNECTED TRANSACTION

Acquisition of the 93% equity interest in An Ning

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

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

As Mr. HE, Extra Benefit and Profit Channel are connected persons of the Company, the entering into of the acquisition agreement and the subscription agreement constitute connected transactions for the Company under the Listing Rules.

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

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

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

The Model Code for Securities Transactions

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

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

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

By Order of the Board
DU Richeng
Chairman

Hong Kong, 13 August 2010

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