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 2011

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 2011 as follows:

RESULT HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2011	2010	Change
	HK$'000	*HK$'000*	
Turnover	**508,397**	437,799	16.1%
Gross Profit	**280,366**	240,720	16.5%
Profit from operations	**48,566**	66,048	-26.5%
Profit attributable to equity shareholders of the Company	**36,480**	29,049	25.6%
Earnings per share *(HK cent)*	**2.05**	1.74	17.8%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 – unaudited

(Expressed in Hong Kong dollars)

	Note	**Six months ended 30 June 2011 $'000**	Six months ended 30 June 2010 $'000
Turnover	*3*	**508,397**	437,799
Cost of sales		**(228,031)**	(197,079)
Gross profit		**280,366**	240,720
Other revenue	*4*	**6,930**	8,240
Other net income	*4*	**949**	8,576
Selling and distribution costs		**(181,536)**	(148,270)
Administrative expenses		**(58,143)**	(43,218)
Profit from operations		**48,566**	66,048
Finance costs	*5(a)*	**(5,005)**	(1,603)
Profit before taxation	*5*	**43,561**	64,445
Income tax	*6*	**(6,418)**	(16,710)
Profit for the period		**37,143**	47,735
Other comprehensive income for the period, net of tax			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**20,385**	7,931
Available-for-sale securities: net movement in fair value reserve	*7*	**(2,264)**	1,218
		18,121	9,149
Total comprehensive income for the period		**55,264**	56,884

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011 – unaudited (continued)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2011	2010
		$'000	$'000
Profit attributable to:			
– Equity shareholders of the Company		**36,480**	29,049
– Non-controlling interests		**663**	18,686
Profit for the period		**37,143**	47,735
Total comprehensive income attributable to:			
– Equity shareholders of the Company		**54,019**	37,148
– Non-controlling interests		**1,245**	19,736
Total comprehensive income for the period		**55,264**	56,884
Earnings per share (HKD)	*8*		
Basic		**2.05 cents**	1.74 cents
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011 – unaudited
(Expressed in Hong Kong dollars)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011 – unaudited (continued)
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2011 $'000**	At 31 December 2010 $'000
Non-current liabilities			
Deferred tax liabilities		**52,753**	58,312
Deferred government grants		**10,589**	9,591
		63,342	67,903
NET ASSETS		**904,448**	849,184
CAPITAL AND RESERVES	*11*		
Share capital		**178,341**	178,341
Reserves		**711,337**	657,318
Total equity attributable to equity shareholders of the Company		**889,678**	835,659
Non-controlling interests		**14,770**	13,525
TOTAL EQUITY		**904,448**	849,184

Notes to the unaudited interim financial report

(Expressed in Hong Kong dollars)

1 Basis of preparation

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 2011 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 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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.

2 Changes in accounting policies

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

- HKAS 24 (revised 2009), *Related party disclosures*

- Improvements to HKFRSs (2010)

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

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

3 Turnover

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

	Six months ended 30 June	
	2011	2010
	$'000	$'000
Sale of pharmaceutical products		
– Pills and tablets	**299,773**	228,853
– Medicine wine	**41,862**	11,109
– Injections	**45,395**	51,007
– Paste, granules and others	**121,367**	146,830
	508,397	437,799

4 Other revenue and net income

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

5 Profit before taxation

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

(a) Finance costs

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

(b) Other items

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

6 Income tax in the consolidated statement of comprehensive income

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

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the six months ended 30 June 2011 and 2010.

Pursuant to the Corporate Income Tax Law ("CIT Law") of Peoples' Republic of China, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%. Foshan Feng Liao Xing Pharmaceutical Company Limited ("Feng Liao Xing"), Foshan Dezhong Pharmaceutical Company Limited ("Dezhong") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were qualified as Advanced and New Technology Enterprises ("ANTEs") and were entitled to preferential corporate income tax rate of 15% for a three-year period with effect from 1 January 2008.

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

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

7 Other comprehensive income

Available-for-sale securities

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

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $36,480,000 (six months ended 30 June 2010: $29,049,000) and the weighted average of 1,783,410,000 ordinary shares (six months ended 30 June 2010: 1, 672,327,000) in issue during the interim period.

(b) Diluted earnings per share

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

9 Trade and other receivables

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

	At 30 June 2011 $'000	At 31 December 2010 $'000
Within 3 months after invoice date	**154,259**	122,343
3 to 6 months after invoice date	**39,126**	38,009
More than 6 months less than 12 months after invoice date	**26,855**	27,057
Trade debtors and bills receivable	**220,240**	187,409
Deposits, prepayments and other receivables	**29,532**	32,440
	249,772	219,849

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

10 Trade and other payables

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

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

11 Capital, reserves and dividends

(a) Share capital

On 10 May 2010, the Company allotted and issued 155,000,000 ordinary shares of $0.10 each at the issue price of $0.85 per share. The proceeds were used to settle the consideration for the acquisition of the 93% equity interest in a subsidiary. There were no movements in share capital during the six months ended 30 June 2011.

(b) Dividends

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

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

INDUSTRY REVIEW

Assured usage of essential drugs

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

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

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

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

The use of antibiotics restricted

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

BUSINESS REVIEW

Sales of Products

1. Analysis by National Essential Drugs:

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

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

Essential Drugs

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

Non-Essential Drugs

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

2. *Analysis by Types of Medicines:*

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

Respiratory system drug and nasal preparations

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

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

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

Rheumatic diseases and traumatic injury drug

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

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

Cerebro-cardiovascular drug

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

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

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

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

Antibiotics

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

Oncology drug

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

Other products

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

Marketing

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

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

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

Research and Development

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

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

Gaoming Base

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

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

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

FUTURE OUTLOOK AND GROWTH STRATEGY

Implementation of merger and acquisition

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

Construction of medicine materials warehousing base

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

Investment in TCM health industry

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

FINANCIAL REVIEW

Turnover

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

Cost of Sales and Gross Profit Margin

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

Other Revenue

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

Other Net Income

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

Selling and Distribution Costs

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

Administrative Expenses

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

Profit from Operations

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

Finance Costs

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

Earnings per share

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

Liquidity and Financial Resources

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

BANK LOANS AND PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2011 (31 December 2010: Nil).

EXCHANGE RATE RISK

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2011, the Group employed a total of 3,304 (30 June 2010: 2,727) staff members, including directors of the Company, of which the number of sales staff, production staff and those engaged in research and development, operation and administration and senior management were 1,484, 1,206 and 614 respectively. Remuneration packages were principally comprised of salary and discretionary performance bonus based on individual merits. The Group's total remuneration for employees for the year was approximately HK$70,957,000 (30 June 2010: HK$55,340,000).

INTERIM DIVIDEND

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

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

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2011 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

The Model Code for Securities Transactions

The Company has adopted the Model Code 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 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Winteam Pharmaceutical Group Limited
DU Richeng
Chairman

Hong Kong, 29 August 2011

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 the executive directors; and Mr. LO Wing Yat, Mr. PANG Fu Keung, Mr. WANG Bo and Mr. ZHANG Jianhui are the independent non-executive directors.